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ABSTRACT

Using a case study approach, the General Accounting Office (GAO) reviewed the results of 12 projects funded under the Urban Development Action Grant (UDAG) Program, which provided $3 billion in grants to distressed communities for economic revitalization and neighborhood reclamation projects. GAO found that the projects exceeded investment expectations, came close to meeting employment expectations, but fell considerably short of realizing projected increases in local tax revenues. The Department of Housing and Urban Development's (HUD's) information system, however, did not provide complete information on the results. GAO also found that many of the most economically distressed small cities did not participate in the program because they (1) were unfamiliar with the program, (2) had insufficient city government capacity to plan a UDAG project, and (3) had difficulties in obtaining adequate private sector involvement. In addition, many cities that have received UDAG funds have loaned them to private developers; some of these loans are repaid before a UDAG project is completed. At present, there is no clear policy on whether cities can use these early repayments for additional community and economic development activities. GAO has offered recommendations that would improve the accuracy of HUD's information on completed projects, help small cities to participate in the program, and establish a policy on whether cities should be able to use early UDAG repayments. (Author/CMG)

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MAY 15 1984

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

ED244031

Insights Into Major Urban Development Action Grant Issues

Between 1978 and November 1983, the Urban Development Action Grant (UDAG) Program provided $3 billion in grants to distressed communities for economic revitalization and neighborhood reclamation projects. A small but increasing percentage of these projects has been completed. Using a case study approach, GAO reviewed the actual investment, employment, and local tax results of 12 completed projects and found that these projects exceeded investment expectations, came close to meeting employment expectations, but fell considerably short of realizing projected increases in local tax revenues. The Department of Housing and Urban Development's (HUD's) information system, however, did not provide complete information on the UDAG results realized from the 12 completed projects.

GAO also found that many of the most economically distressed small cities did not participate in the program because they (1) were unfamiliar with the program, (2) had insufficient city government capacity to plan a UDAG project, and (3) had difficulties in obtaining adequate private sector involvement.

In addition, many cities that have received UDAG funds have loaned them to private developers; some of these loans are repaid before a UDAG project is completed. At present, there is no clear policy on whether cities can use these early repayments for additional community and economic development activities.

GAO makes recommendations that would improve the accuracy of HUD's information on completed projects, help small cities participate in the program, and establish a policy on whether cities should be able to use early UDAG repayments.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report on the Urban Development Action Grant Program addresses three issues: the accuracy of the Department of Housing and Urban Development's information on the results of completed projects, the participation of small cities in the program, and the requirements governing moneys that recipient cities can generate by loaning action grant funds to private developers.

We performed our review to provide the Congress with insight into these issues during the program's reauthorization process. This report supplements our interim report of March 15, 1983 (GAO/RCED-83-126).

Copies of this report will be sent to the Director, Office of Management and Budget; appropriate House and Senate committees; and the Secretary of Housing and Urban Development.

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

INSIGHTS INTO MAJOR URBAN DEVELOPMENT ACTION GRANT ISSUES

D I G E S T

The Urban Development Action Grant (UDAG) program, administered by the Department of Housing and Urban Development (HUD), is designed to stimulate private investment in severely distressed communities by providing partial funding for economic development projects. Essentially, the program provides funds to a distressed community, which grants or loans the funds to a private developer, thus improving the feasibility of otherwise marginal private sector economic development projects. The developer, in turn, must provide at least $2.5 dollars in private sector financing for each dollar of UDAG funds going into a project. From initial program awards in 1978 through November 1983, selected communities have received $3 billion in UDAG funds.

GAO's review of the UDAG program had three objectives: (1) to examine the extent to which 12 completed, judgmentally selected projects were able to meet their primary expectations and determine how accurate HUD's information was on the results of these projects, (2) to find out why many of the most economically distressed small cities have not participated in the program, and (3) to review the adequacy of HUD's requirements governing the repayment of UDAG funds loaned by cities to project developers, since almost 90 percent of all UDAG dollars spent by the end of fiscal year 1982 was used for loans. (See pp. 1 to 4, p. 41, and app. I.)

RESULTS OF COMPLETED PROJECTS SURVEYED

HUD awards UDAG funds to communities on a competitive basis. In deciding which of the competing UDAG projects to fund, HUD's primary criterion for selecting projects, with certain minor exceptions, is the comparative degree of economic distress among the applicant communities. HUD also considers the extent to which a proposed project would be supported by private and other public sector investment. Other major factors in project selection are the number of new permanent jobs to be created, particularly for persons of low- and moderate-income, and the amount of local government tax revenues to be generated.

Approximately 1,400 UDAG projects were approved between the program's start in 1978 and September 1982. Of these, 66 had been classified by HUD as being complete as of September 1982. A UDAG project is considered complete when a final audit has been performed and HUD decides project expectations such as for jobs and taxes have been met or best faith efforts were made. Since most completed projects were approved in 1978 and 1979, one major limitation is that a review of some or all of the 66 projects would not represent overall program results because the completed projects would not constitute a representative sample of all approved projects.

Mindful of this limitation, GAO's intent was not to measure program impact, but rather to review a sample of 12 completed projects from Illinois, Ohio, and New York to ascertain whether initial project expectations were realized. GAO's aim was to determine how adequately HUD tracks project results in order to identify any problems in this area before hundreds of additional UDAG projects are completed. (See pp. 5 and 6.)

GAO's findings for the 12 surveyed projects are primarily based on grantees' financial and independent audit reports and, where possible, developers' payroll registers and local tax assessors' records. GAO found that:

--The $66.8 million in expected investments was surpassed by 29 percent, as $86.1 million was realized. Ninety-five percent of this investment increase is made up of private investments. The remaining increase is made up by state, local, and other federal investments. (See pp. 7 to 8.)

--Ninety-two percent of the new permanent jobs expected was realized (1,126 jobs out of an expected 1,218). In reviewing job expectations, GAO's focus was on the number of jobs created by the project and not on the resulting employment gain or loss for the area. (See pp. 8 to 11.)

--Ninety-one percent of the low- and moderate-income jobs expected was realized (860 out of an expected 950. (See pp. 8 to 11.)

--Only 35 percent of the expected local tax revenue increase was realized ($283,553 out of an expected $817,212). (See pp. 11 to 13.)

HUD's information system does not fully report the results of surveyed projects

The actual results for the 12 projects surveyed differed substantially from the figures found in HUD's information system. The following chart illustrates the differences.

Project expectations	Realized per GAO review	Realized per HUD information system
Investments	$86 million	$47 million
New permanent jobs	1,126	1,088
Low- and moderate-income jobs	860	464
Local tax revenue increases	$ 284,000	$167,000

These differences are accounted for in large part by the fact that HUD's information system relies solely on grantee quarterly reports, which are assumed to accurately reflect combined project results. Other available grantee reports are not used although they may contain more complete information. For instance, on one project, HUD's information system showed that no private investment was made, yet the grantee provided HUD with a financial status report showing $29 million in private investments. This figure was also reported by a final audit report. Before GAO brought this and other similar examples to HUD's attention, HUD officials were unaware that other available project documents could contain more complete information.

Although only a few UDAG projects have reached completion to date, corrective action is needed now to ensure that complete information will be available for the almost 2,000 UDAG projects approved through fiscal year 1983 that are not yet complete. GAO recommends that the Secretary of HUD direct the UDAG information system to use additional, available grantee reports on project results. (See pp. 13 to 18.)

MANY SMALL CITIES ARE UNAWARE OF THE UDAG PROGRAM OR HAVE DIFFICULTY APPLYING

Legislation provides that no less than 25 percent of each year's UDAG appropriation be used for awards to small cities (generally defined as cities with populations under 50,000). However, from the program's beginning in 1978 through fiscal year 1982, the amount of UDAG awards to small cities consistently fell short of this mark. By the end of fiscal year 1982, about $142 million in unused UDAG funds for small cities had accumulated.

Fiscal year 1983 saw a significant increase in the amount of small city awards. The 25 percent mark was met and exceeded, and the amount of the unused small city funds carried over from previous years was reduced to $75 million. The Congress, however, has indicated concern about the ability of small cities to participate in the program. The recently enacted Housing and Urban-Rural Recovery Act of 1983 authorizes funds for technical assistance to help increase small cities' participation in the program during fiscal years 1984, 1985, and 1986.

To determine how HUD could further help small cities participate in the UDAG program, GAO interviewed a statistical sample of officials from 125 small cities that had not applied for a grant or had applied without success. Each of these cities was rated by HUD as having severe economic distress as measured by the age of its housing stock, the degree of its poverty, and the decline in its population growth. Selection was made from the 661 most distressed cities because the primary legislative criterion for selecting a small city for a UDAG award is the degree of its economic distress.

From these interview results, GAO concluded that small cities' low participation was due to three major reasons: (1) lack of knowledge about UDAG,

(2) insufficient staff or technical expertise to prepare a viable UDAG application, and (3) difficulties in obtaining adequate private sector involvement and financing. To pull together a sound UDAG application, most city officials indicated that they need one or more of the following: program information, technical assistance, and a streamlined application process. (See pp. 20 to 33.)

At present, HUD lacks a comprehensive package of materials that would help acquaint small cities with the program. With regard to technical assistance, some cities have benefited from technical assistance provided by HUD or its contractors. HUD has not, however, developed nationwide guidelines for determining which cities should be provided with technical assistance. And although HUD has revised the UDAG application form, it remains complex. Both small and metropolitan cities are required to use the same form even though, as one HUD study noted, UDAG awards have ranged from $35 thousand (a small city project) to $30 million (a metropolitan city project).

GAO believes that it is consistent with the program's recent legislation for HUD to take action to inform small cities of the program's existence and to provide technical assistance funds to help small cities develop competitive applications. GAO recommends that the Secretary of HUD (1) develop a plan aimed at helping small cities participate in the program by establishing goals and criteria for selecting them to receive technical assistance, (2) develop comprehensive UDAG information material, and (3) develop and test a separate, streamlined application form for use by small cities. GAO believes that a plan for technical assistance to small cities is particularly important in view of the recently enacted Housing and Urban-Rural Recovery Act of 1983, mentioned earlier, which allows the Secretary of HUD to use up to $2.5 million of yearly UDAG appropriations for technical assistance to help small cities compete for UDAG funds. Such a plan would assist HUD in making decisions about the use of these funds and the coordination of new technical assistance efforts with current efforts. (See pp. 33 to 37.)

CLEAR POLICY NEEDED ON UDAG REPAYMENTS

Cities receiving UDAG funds frequently convey them to a private developer in the form of a loan, rather than a grant. As a result, depending on the project, thousands to millions of dollars will be repaid on individual UDAG projects. For example, the loan repayments (including interest) on 41 New York and Michigan projects GAO reviewed will total $106 million over repayment periods ranging from 1 to 50 years. (See pp. 40 to 44.)

The standard UDAG grant agreement provides that a city can use repayments for other community and economic development activities if they are received after UDAG funds have been completely spent on a project. But if repayments start earlier, the grant agreement provides that these early repayments should be used to reduce the amount of additional UDAG funds authorized by HUD and needed to complete the project. These requirements, however, do not reflect HUD's intent. The intent, which was expressed in negotiations with cities and other participating parties, was that cities use repayments for additional economic development activities. To ensure this intent is fulfilled, HUD has given some cities exemptions to the requirements on a case-by-case basis in order that early project repayments would not have to be used to reduce the UDAG funds granted. There is no policy on when such exemptions should be given and not all projects have received these exemptions. Although HUD has been aware of this situation for over a year, a policy has not been developed. GAO recommends that the Secretary of HUD develop and issue policy guidance defining the circumstances under which cities should be able to use early UDAG repayments. (See pp. 44 to 48.)

AGENCY COMMENTS AND GAO'S EVALUATION

HUD plans to take actions that will be responsive to several of GAO's recommendations. These actions will result in (1) the use of additional grantee reports on project results, (2) the publication of new program informational materials, and (3) the issuance of policy guidance on UDAG repayments. HUD, however, did not agree with

GAO's recommendation to develop an outreach plan that establishes goals and criteria for providing technical assistance to small cities. HUD responded that a number of additional efforts are being taken to further its outreach and technical assistance efforts for small cities, and it believes these efforts have already begun to produce results. These efforts include, for example, signing additional technical assistance contracts and sending out information to small cities. HUD therefore stated that GAO's recommended plan is not called for at this time. Also, HUD stated that it does not believe that a separate, streamlined application form for small cities is needed; it noted that a new, shorter application form is being used.

GAO believes that HUD's additional efforts, together with the recently enacted legislation providing up to $2.5 million for small city technical assistance, make it even more important for HUD to establish a plan which would set priorities and guide and coordinate the various small city efforts conducted by HUD headquarters, field offices, and contractors. GAO also believes that HUD should examine how the current application form can be streamlined, since GAO's interviews with city officials disclosed that the application process was a significant problem for them. (See pp. 18, 37, and 48, and app. VIII.)

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
UDAG	Urban Development Action Grant

CHAPTER 1

INTRODUCTION

The Urban Development Action Grant (UDAG) program is designed to provide federal financial assistance to the nation's distressed communities. The program was established through the Housing and Community Development Act of 1977 (Public Law 95-128), which authorized the Secretary of the Department of Housing and Urban Development (HUD) to make grants to severely distressed communities for economic revitalization and neighborhood reclamation projects.

The UDAG program is based on the concept of overcoming a "development gap" that exists in distressed communities. The development gap is defined to be the increased cost of investing in distressed communities resulting from such factors as decaying or inadequate infrastructure or high land clearance costs.

Communities receiving UDAG funds can help bridge the gap for private developers by providing them with a grant or, more commonly, a loan originating from UDAG funds. For each UDAG project dollar, HUD requires at least $2.5 dollars of private investment. UDAGs can be used for a wide variety of industrial, commercial, and neighborhood projects. Recently funded projects include the expansion of industrial plants, the purchase of manufacturing equipment, hotel renovations, shopping center development, hospital and office building construction, and low- and moderate-income housing. By November 1983, communities had been awarded $3 billion in UDAG funds for about 2,000 projects. The Congress has authorized $440 million in UDAG funds for each of the fiscal years 1984, 1985, and 1986--which is the same authorization level as for fiscal year 1983.

ELIGIBLE COMMUNITIES

Any community is eligible to apply for a UDAG as long as it

--has met the minimum criteria for economic distress, which includes its poverty level, lag in population growth, and age of housing and

--has demonstrated results in providing housing for low- and moderate-income persons and in providing equal opportunity in housing and employment for low- and moderate-income persons and members of minority groups.

There are three categories of eligible communities: distressed metropolitan cities and urban counties, distressed small cities with populations of less than 50,000, and nondistressed communities containing areas with pockets of poverty. UDAGs are awarded quarterly on a competitive basis, with separate funding rounds for metropolitan cities or urban counties and small cities.

By statute, at least 25 percent of all funds appropriated for the UDAG program must be used for small cities. Up to 20 percent may be awarded to nondistressed communities containing areas with pockets of poverty. The balance is available for distressed metropolitan cities and urban counties.

Initial UDAG eligibility by metropolitan cities and urban counties was addressed in our report Criteria for Participation in the Urban Development Action Grant Program Should Be Refined (CED-80-80, Mar. 20, 1980).

PROJECT SELECTION

HUD awards UDAG funds on a competitive basis to communities to undertake certain activities that improve the feasibility of otherwise marginal private sector economic development projects. Except for grants to communities containing pockets of poverty, the primary criterion for selection is the comparative degree of economic distress among the applicant communities. Other selection factors include the results expected from a project. There are three major results associated with UDAG projects: new private and non-UDAG public investment, new permanent jobs, and increases in local taxes or payments in lieu of taxes.

A community sends its application to the local HUD area office for preliminary review.[1] The application is also reviewed by the particular HUD regional office to which the area office reports. Both of these field offices send recommendations on the merits of a proposed project to the Office of UDAG at HUD headquarters. Based on further analysis by the UDAG headquarters staff and the recommendations of the UDAG program's director, the Secretary of HUD selects the projects to be funded. No UDAG funds can be used, however, until a grant agreement is signed, which establishes a contract between the city and HUD and sets forth the terms and conditions of the approved project. After this grant agreement is executed, HUD field offices have responsibility for monitoring the performance of the community and other participants in the project.

Problems with the UDAG selection process have been recognized in our previous reviews. We have issued a report dealing with this issue: Improvements Needed in Selecting and Processing Urban Development Action Grants (CED-79-64, Mar. 30, 1979). We also testified on this issue before the Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations (May 23, 1979).

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[1] Late in 1983, HUD reorganized its field operations. Area offices are now referred to as Category A field offices.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objective in this review was to provide insight into major UDAG issues during the program's reauthorization process. Consequently, we issued an interim report on March 15, 1983.[2] This present report is intended to supplement our earlier effort by informing the Congress on three central UDAG issues:

--To what extent have sampled, completed projects realized their expectations and how accurate has HUD's information been on the results of these projects?

--Why have many potentially eligible, very distressed small cities not applied for UDAG funds and why have some applicant small cities not been successful?

--How adequate are HUD's requirements governing the repayment of UDAG funds loaned by recipient cities to private developers?

Our review was made in accordance with generally accepted government auditing standards. We reviewed applicable legislation and HUD regulations, policies, and procedures. We also reviewed UDAG research reports, audit reports, and evaluations.

We decided to collect data on the major results of completed projects because the previous studies we reviewed generally made estimates on UDAG results expected to be realized by projects that were not yet complete. A UDAG project is considered complete when a final audit has been completed and HUD decides that expectations such as jobs and taxes have been met or best efforts were made. When we made our selection in September 1982, only 66 UDAG projects had been classified by HUD as complete. We reviewed 12 (18 percent) of these completed UDAG projects. (See app. I for details.) For the completed projects selected, we reviewed each project's application, grant agreement, and any amendments to determine the primary results expected. Thereafter, we reviewed HUD and grantee monitoring and reporting documents, independent audit reports, and where possible, payroll records and tax receipts to determine actual UDAG results. We also held discussions with HUD officials, the grantee, and the participating party (usually a developer) to discuss the primary expectations and results.

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[2] Interim Report on GAO's Review of the Urban Development Action Grant Program (GAO/RCED-83-126).

To determine why small city participation in UDAG has been relatively low, we statistically sampled and conducted telephone interviews with the most economically distressed of the small cities potentially eligible for UDAG funding in 1982. The most distressed cities were chosen because, as noted above, the primary legislative criterion for selecting a small city for a UDAG award is the degree of its economic distress. Our findings apply to 553 of the most distressed small cities that had never applied for UDAG funds and 33 additional such cities that have applied unsuccessfully. (See app. I for details.) We also gathered and analyzed information on application and funding patterns according to various small city population sizes. In addition, we met with principal UDAG officials, including the UDAG office's seven Senior Development Directors, to discuss their perceptions about small city participation and what can be done to increase it.

To obtain information on the repayment of UDAG funds loaned to developers by recipient cities, we reviewed 12 Michigan and 29 New York projects. (See app. I for details.) For each project, we (1) reviewed the application, grant agreement, and any amendments to it to determine the type and amount of repayment provided for, (2) discussed UDAG repayments issues with HUD and the grantee (city) officials, and (3) reviewed the grantee's use or planned use of UDAG repayments. We reviewed applicable legislation and HUD regulations, policies, and procedures to determine whether they were clear and consistent regarding UDAG repayments. Also, we calculated the present value of UDAG dollars to be repaid.

CHAPTER 2

MORE ACCURATE INFORMATION NEEDED ON THE RESULTS OF COMPLETED UDAG PROJECTS

The overall purpose of the UDAG program is to stimulate economic development in severely distressed cities.[1] In deciding which of the competing UDAG applications to fund, HUD's primary criterion for selection (except for grants to communities containing pockets of poverty) is the comparative economic distress among the applicant communities. HUD also considers the extent to which a proposed project would be supported by private and other public sector investment. Other major factors in project selection are the number of new permanent jobs to be created, particularly for persons of low- and moderate-income, and the amount of local government tax revenues to be generated. The degree to which these investment, job, and tax expectations are actually realized is the principal measure by which to judge the UDAG program's success.

Although there are difficulties in determining UDAG project results, we used a case study approach to review 12 completed UDAG projects in order to measure the actual amount of investment in these projects, along with the number of jobs created and the amount of taxes generated. We found that the 12 reviewed projects exceeded investment expectations, came close to meeting job expectations[2], but fell considerably short of realizing projected increases in local taxes.

When we compared our audit results with the completed project data in HUD's information system, we found that HUD's system did not provide accurate information on either project expectations or results for a variety of reasons. Although this information problem is mitigated by the fact that few UDAG projects have reached completion, corrective action is needed now to ensure that reliable information will be available for the well over a thousand approved UDAG projects not yet complete. This information will be needed to determine the program's actual results and to determine compliance with the legislative intent, purpose, and goals of the program.

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[1] Throughout this report, the term "cities" includes urban counties, Indian tribes, Guam, and the Virgin Islands.

[2] In reviewing job expectations, GAO's focus was on the number of jobs created by the project, and not on the resulting employment gain or loss for the area.

DIFFICULTIES IN ASSESSING THE UDAG PROGRAM'S ACTUAL IMPACT

In the past, HUD has made attempts to predict the impact of the UDAG program on the basis of preliminary data from projects that had not yet been completed. Also, HUD's information system has been used to report the results of completed projects, but there has been no HUD evaluation of the accuracy of this information.

Certain inherent evaluation problems make a UDAG assessment difficult. For example, one of the program's main aims is to create new permanent jobs, but it can be very difficult to determine whether jobs created by UDAG projects actually represent a net increase in employment or whether employment is to some extent simply being shifted from one business or area to another. Similar difficulties arise in trying to assess the extent to which a project has genuinely brought about private investment that would not otherwise have been made in the distressed community. The Congress recognized this issue in December 1979 and passed a legislative amendment requiring the Secretary of HUD to condition grant awards on the Secretary's determination that there was a strong probability that the non-federal investment would not be made without UDAG funds and that the UDAG funds were not merely substituting for other available funds.

The most immediate problem, though, in assessing the UDAG program's impact stems from the fact that only a few projects have been certified by HUD as being complete. When we made our sample selection on September 9, 1982, 66 out of approximately 1,400 approved projects had been so certified. Since most of the completed projects were approved during the early years of the program in 1978 and 1979, they do not constitute a representative sample of all the approved projects. Consequently, an audit of all or some of these 66 projects would not represent a valid assessment of how well the UDAG program as a whole was actually meeting its expectations. In addition, a review of 1978 and 1979 projects would not be of value in assessing the effectiveness of the legislative amendment noted above.

Mindful of these limitations, our intent was not to measure program impact, but rather to review a sample of completed projects to ascertain whether initial project expectations were realized. We also wanted to determine how adequately HUD tracks project results in order to identify any problems in this area before hundreds of additional UDAG projects are completed.

TWELVE SURVEYED PROJECTS GENERALLY MET THEIR EXPECTATIONS FOR INVESTMENT AND JOBS, BUT NOT FOR LOCAL TAXES

We selected 12 completed UDAG projects from Illinois, Ohio, and New York as case studies. The projects fell into three categories. Seven involved the creation or expansion of an industrial site. Four were commercial projects, three of which were for hotel or hotel-related construction. The 12th was a neighborhood development project designed to provide rental housing units.

Our determination of project results was primarily based on grantee financial and independent audit reports and, where possible, developer payroll registers and local tax assessors' records. We found that:

--The private and other public investment exceeded expectations for all 12 projects.

--Nine of 11 projects exceeded or substantially met the number of new permanent jobs and low- and moderate-income jobs anticipated[3]. The two remaining projects fell short of expectations. The 12th project realized only temporary construction jobs since it was a housing project that provided no permanent jobs.

--Taxes realized fell short of what was estimated. Only 5 of the 12 projects met or exceeded local tax revenue expectations.

It should be reemphasized that these findings, which are presented in more detail in the following sections, apply only to the 12 projects we reviewed.

Investment expectations exceeded by the 12 surveyed projects

The UDAG program relies extensively on private sector funding. For any given project, HUD currently requires a minimum of $2.50 of private money for each dollar of UDAG funding proposed. Additional funds to support a UDAG project can come from local and state governments and certain other federal programs.

Our review of 12 completed UDAG projects indicated that the grant agreements for these projects provided for a total expected investment of $66.8 million. This figure was surpassed by 29 percent, as $86.1 million was realized. Ninety-five percent of this investment increase is made up of private investments. The remaining increase is made up of other federal, state, and local investments, as the following table shows.

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[3] Consistent with HUD's definition, a new permanent job is one created as a result of the project. One job is considered to represent one person working a standard work week, generally 40 hours. A low/moderate income job is defined as one in which the individual earns less than 80 percent of the median income of the area.

Table 1

Comparison of Expected and Actual Investments for 12 UDAG Projects

Investment source	Expected at grant agreement[a]	Realized at project completion[b]	Difference
UDAG	$ 9,724,255	$ 9,724,024	$ (231)
Private	56,354,365	74,641,228	18,286,863
Other federal	631,880	757,769	125,889
State	0	813,500	813,500
Local	129,000	207,491	78,491
Total	$66,839,500	$86,144,012	$19,304,512

[a] Grant agreement amendments were recognized.

[b] Investment determinations were primarily based on grantee financial and independent audit reports.

Naturally, inflation was a factor in contributing to increases in project investments. But since the documentation for these early-year projects did not indicate whether or to what extent inflation was considered, an accurate assessment of the inflationary effects is not possible. Reasons city officials and developers cited for increased investments included the following:

--Six projects increased in scope.

--Two projects had design problems resulting in more costly modifications.

--One project underestimated material cost.

Of the remaining three projects, two received additional state and local funds that were not provided for in the grant agreement. The 12th project exceeded investment expectations by less than $4,000.

Employment expectations largely met by the 12 surveyed projects

In selecting projects to receive UDAG funds, HUD considers the expected impact of the proposed project on the employment base of the city. Specifically, HUD presently considers whether a project compared with other projects being reviewed includes

--a greater number of new permanent jobs,

--a greater percentage of new permanent jobs accessible to lower income persons and minorities, and

--a greater percentage of jobs for persons eligible under the Comprehensive Employment and Training Act.[4]

HUD also considers construction jobs and the retention of existing jobs but gives them less weight in project selection than the creation of new permanent jobs.

In the program's early years (1978 and 1979), HUD only requested cities to provide information on the following types of permanent new jobs: (1) the total number of permanent jobs to be created and (2) the number of these that were low- and moderate-income jobs. Since the completed projects we reviewed were all approved in 1978 and 1979, our review could only address these early employment factors, which did not specifically note jobs for minorities or persons eligible under the Comprehensive Employment Training Act.

Of the 12 completed UDAG projects we reviewed, 1 was a housing project which provided no permanent jobs. Nine of the remaining 11 projects generally met or came close to their employment expectations. Specifics regarding expected and actual new permanent jobs and low- and moderate-income jobs at project completion are shown in the following table.

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[4] Eligible persons are defined by HUD as those who are structurally unemployed, underemployed, or from low- and moderate-income households.

Table 2

Comparison of Expected and Actual New Permanent and Low- and Moderate-Income Jobs for 11 UDAG Projects

	New permanent jobs			Low/moderate income jobs		
Project description	Expected at grant agreement[a]	Realized at project completion[b]	Percent realized	Expected at grant agreement[a]	Realized at project completion[b]	Percent realized
Ballbearing plant	62	93	150	56	55	98
Tool plant	22	31	141	0	31	--
Shopping center expansion	8[c]	11	138	8[c]	10	125
Motel complex	26[c]	33	127	26[c]	24	92
Hotel (400 units)	302	319	106	290	312	108
Biscuit plant	40	42	105	30	33	110
Hotel (162 units)	145[d]	150	103	111[d]	100	90
Roofing plant	163	167	102	118	128	108
Factory building	170	146	86	152	140	92
Generator plant	80	0[e]	0	76	0[e]	0
Auto component plant[f]	200	134	67	83	27	33
Total	1,218	1,126	92	950	860	91

[a] Grant agreement amendments were recognized.

[b] Part-time jobs were translated into full-time equivalent jobs. Job determinations were based on grantee-provided information and traced by us to developer's payroll records where possible.

[c] Represents full-time equivalent jobs we computed, as original grantee information received by HUD noted some employment would be part-time.

[d] Since the grant agreement did not itemize expected jobs, employment information specified in the application was used instead.

[e] In September 1980, this plant closed and all personnel (36) were terminated. HUD classified the project as complete in August 1981, as the employment goal could no longer be expected to be met.

[f] Most jobs were not expected to be realized until several years after HUD had classified the project as complete. The employment figures presented represent those expected and realized at the time of our audit work, which was 2 years after project completion.

Nine projects exceeded or substantially met expectations for a variety of reasons. Among the reasons mentioned by developers and city officials were the following:

--The developer was conservative in estimating the employment impact.

--An increase in the scope of the project resulted in more jobs than expected.

--A greater-than-expected volume of business increased employment.

For the last two projects that did not meet job expectations, one terminated operations before HUD classified the project as complete. The second project was planned to create 300 jobs, within 4 years after HUD classified the project as complete. At the time of our audit work, 200 of these jobs were expected and 134 were realized. The developer attributed the shortfall in part to economic conditions.

As previously mentioned, of the 12 projects we reviewed 1 was a housing project that created no new permanent jobs. The number of temporary construction jobs that were realized fell short of expectations apparently because fewer housing units were built than originally planned. This shortfall was due to the fact that the site proved unsuitable for the original number of planned housing units and could only accommodate a reduced number.

Taxes fell short of expectations for the 12 surveyed projects

A UDAG project is expected to increase a city's tax base. HUD's review of a proposed project includes consideration of the annual local increase in real estate taxes, other taxes, and payments in lieu of taxes as a result of the proposed project. In selecting projects for funding, HUD considers whether a project will generate a greater amount of net new annual tax revenues in relation to the UDAG funds requested than other projects.

The 12 projects we reviewed realized overall increases in local tax revenues of $283,553. However, this figure falls considerably short of the anticipated $817,212 increase. Table 3 shows this information in more detail.

Table 3

Comparison of Expected and Actual Increases in Local Tax Revenues for 12 UDAG Projects

Project description	Expected at grant agreement[a]	Realized at project completion[b]	Percent realized
Tool plant	$ 250	$ 1,200	480
Hotel (162 units)	36,000	66,500	185
Roofing plant	59,590	76,533	128
Ballbearing plant	16,000	18,000	113
Generator plant	18,750	18,750[c]	100
Total--expectations met	130,590	180,983	139
Factory building	79,000	53,325	68
Shopping center expansion	16,140	5,498	34
Motel complex	50,000	11,759	24
Housing project	30,240	7,148	24
Auto component plant	72,100	8,006	11
Biscuit plant	179,142	16,834	9
Hotel (400 units)	260,000	0	0
Total--expectations not met	686,622	102,570	15
Total	$817,212	$283,553	35

[a] Based on grant agreements and any amendments to them. In cases where these documents contained no estimates of tax revenues to be generated, we used tax information specified in the UDAG application.

[b] Based on grantee provided documentation and our verification of documentation obtained at the grantee's tax assessor's office, where possible.

[c] Project operations had been terminated as of September 1980. At closeout (July 1981), however, the commitment on property taxes was considered met by HUD.

As table 3 shows, five projects met or exceeded expectations. Developers and city officials accounted for this in part with the following reasons:

- --Tax estimates were based on expected investment. Investment increased, consequently, tax revenue generated increased.

- --Additional payments in lieu of taxes that were not provided for in the grant agreement were received by the city.

- --A greater-than-expected assessment resulted in an increase in tax revenues generated.

Of the seven projects that did not realize expected taxes, the 400-unit hotel project accounted for almost half of the shortfall. This project's grant agreement called for a payment in lieu of taxes of $260,000 based on the annual net cash flow generated by the project. According to a HUD area office representative, no such cash flow has been realized. For the remaining projects, the shortfall in tax revenue generated is due to a variety of reasons; some mentioned by developers and city officials were (1) tax projections were overestimated due to an erroneous assumption that the tax rate would increase, (2) a project received a 5-year tax abatement, and (3) original tax estimates appeared inaccurate because of changes in the method of tax computation.

HUD recognized there was a problem in obtaining reliable estimates of local tax increases expected. As a result, a revised 1983 UDAG application requires, among other things, more specific information for estimating expected local tax increases. (See p. 33 for a further discussion of the revised application.)

HUD's INFORMATION SYSTEM DOES NOT GENERALLY HAVE COMPLETE PROJECT DATA

For the 12 completed projects we reviewed, our findings showed significant differences from HUD's information system both for the primary goals expected and what was actually realized. The following examples illustrate some of these differences.

- --HUD's information system indicates that a total investment of $73.2 million was expected, but we found a total expected investment of $66.8 million. Nine of the 12 projects accounted for this difference.

- --HUD's information system indicates that 621 low- and moderate-income jobs were expected and 464 were realized.

Our review showed differences for 10 of the 12 projects, as we found 950 such jobs expected at the time of our audit work, of which 860 were realized. In other words, our findings show almost twice the number of low- and moderate-income jobs realized compared to HUD's information system.

--HUD's information system indicates expected local tax revenue increases of $2.9 million, of which $167,000 (6 percent) was realized. Our review showed differences for all 12 projects, as we found only $817,000 in expected taxes, of which $284,000 (35 percent) was realized.

The following table further illustrates the differences for the three major UDAG goal categories.

Table 4

Comparison of GAO and HUD Information on Primary Results Expected and Realized for 12 Completed UDAG Projects

	HUD information system			GAO review		
Primary results	Expected	Realized	Percent realized	Expected	Realized	Percent realized
Investment						
	---(thousands)---			---(thousands)---		
Private	$58,914	$35,812	61	$56,354	$74,641	132
State/local	2,069	778	38	129	1,021	791
Other federal	2,459	396	16	632	758	120
UDAG	9,724	9,721	100	9,724	9,724	100
Total	$73,166	$46,707	64	$66,839	$86,144	129
Employment						
New/permanent	1,428	1,088	76	1,218	1,126	92
Low/moderate	621	464	75	950	860	91
Taxes						
	---(thousands)---			---(thousands)---		
Local taxes	$2,924	$167	6	$817	$284	35

A UDAG project receives approval based on the information presented in its application form, which includes goals expected on private investment, jobs, local taxes, and sometimes housing. These expectations can be refined and revised somewhat when the formal grant agreement is drawn up. The grant agreement establishes the legally binding contract between HUD and the city that sets forth the terms and conditions, including expectations, for the approved project.

A director in HUD's Office of Management accounted for the differences in GAO and HUD information on expectations by noting that HUD's information system did not use grant agreement information for the projects we reviewed. Rather, he said HUD's information was based on application approval data. The director stated it was not until 1982 that HUD's information system began recording employment and investment expectations provided for in the grant agreement. Further, he said a new tracking system is being developed for use in 1984, and this system should provide full (tax, housing, investment, and employment) expectation information according to the grant agreement.

Our basis for project expectations was generally the grant agreement. We also considered any grant agreement amendments, since they can officially change expectations. For instance, the grant agreement for one project originally indicated $2.4 million in private investment was expected. However, when one of two developers withdrew from the project, the grant agreement was amended to decrease private funds expected to $1 million. In contrast, HUD's information system continued to show $2.4 million expected.

Reasons for differences between HUD's information system and our findings on goals realized could not always be determined, and when they could they proved to be of a wide variety. First, the differences are accounted for in large part because HUD's information system does not use all available grantee reports. Grantees report the results of projects in quarterly progress reports and in closeout and financial status reports, but only the progress report information is used in HUD's information system because this was assumed to accurately reflect project results. The other two documents are submitted when the construction or rehabilitation activities are complete and all UDAG costs (with possible minor exceptions) have been incurred. The financial status report contains UDAG, private, and other public expenditure information. The closeout status report contains information on the number of jobs yet to be created, whether all property has been assessed for tax purposes, and other related information. If these two documents were used in HUD's information system, the information on some projects' results would be more accurate. For instance, on one project HUD's information system showed no private investment, yet the grantee provided a financial status report showing a private investment of $29 million. This figure is also reported by us, as well as by the final audit report. Before we brought this and other similar examples to HUD's attention, HUD officials were unaware that other available project documents contained more accurate information.

Second, HUD's information system does not always reflect the latest grantee quarterly progress report. For instance, we found that one project realized a private investment of $21.1 million.

HUD's information showed a private investment of $12.3 million, or almost $9 million less. This HUD information as of May 1983 was based on a quarterly progress report of March 31, 1982. The next progress report (June 30, 1982) showed private investment of $21.1 million.

Third, HUD's information system does not always show monitoring information that HUD field offices obtained through site visits. For instance, no low- and moderate-income jobs were reported as realized on one project by HUD's information system. However, a HUD field office monitoring report indicated that 118 such jobs were realized. Based on employment information provided by the developer, we determined 128 jobs were realized.

Fourth, HUD's information system does not always fully report project results up to the time HUD considers the project complete. For example, HUD documents for one project did not show any increase in local tax revenue, but an increase of about $17,000 had been paid according to the county tax assessor's information. Likewise, on one project HUD reported a local tax increase of $45,000, which was reported in a grantee's progress report. However, we found local taxes increased $66,500 by the time HUD considered the project complete.

Finally, HUD's information system does not fully reflect the number of full-time equivalent jobs represented by part-time jobs. For example, HUD's information showed that 36 new permanent jobs were expected for one project reviewed. However, of these 36 jobs, 16 were full-time jobs and 20 were part-time jobs. We converted part-time jobs to full-time equivalent jobs resulting in 26 full-time jobs instead of the 36 jobs HUD reported. Beginning with projects approved in fiscal year 1983, however, this conversion to full-time equivalent jobs was routinely being done.

HUD NEEDS TO TAKE ADDITIONAL ACTION TO ENSURE UDAG INFORMATION IS COMPLETE

We believe that minor revisions to HUD's UDAG closeout procedures could help to ensure that its information system more completely portrays UDAG expectations and results. Currently the procedures assign responsibility to HUD area offices to

--review the grantee's financial status report and compare it for accuracy and consistency with the approved UDAG budget, HUD monitoring reports, and other financial documents and

--review the grantee's closeout status report containing employment, tax, and related information for accuracy and consistency with HUD monitoring reports, grantee quarterly progress reports, the approved grant agreement with any amendments, and other appropriate documents.

The procedures also require that grantees submit annual reports at the end of the fiscal year on the status of the project until it is complete. A project is considered complete when HUD determines all performance requirements such as jobs and taxes are considered met or a best faith effort has been made and a final audit has been performed.

As previously mentioned, HUD's UDAG information system at present either does not have information or has only partial information on project expectations according to the grant agreement or any amendments to it. If grantee reporting forms, such as the closeout status report, were used by the information system, this information on project expectations would still not be complete. This is because the forms are not designed to provide a complete accounting of a project's expectations provided for in the grant agreement or amendment. For instance, such information for taxes or the type and number of jobs is either not on the forms or not noted as a line item.

In addition to expectation information, we believe the closeout status report and annual report need to be revised to provide a full accounting of project results. For instance, both reports currently ask for information on the number of (1) new permanent jobs, (2) low/moderate income jobs, and (3) minority jobs generated to date or yet to be generated. The reporting forms also ask for an explanation if there is a delay in generating jobs. These forms, however, do not request any information on the number of (1) existing jobs retained, (2) jobs for persons eligible under the Comprehensive Employment and Training Act, and (3) temporary construction jobs. Also, there is no provision for explaining why a project may have surpassed or will not realize expectations. Similarly, both forms ask for the number of housing units completed to date. But there is no provision for explaining any deviations from what was expected.

CONCLUSIONS

In reviewing 12 completed UDAG projects, we found that for these projects private investment exceeded expectations, jobs came close to expectations, but considerably less taxes than expected were realized. HUD's UDAG information system, however, does not provide accurate or complete information on the UDAG results expected or realized from these completed projects. Accurate and complete information is needed to assess the UDAG program's actual results and determine compliance with the legislative intent, purpose, and goals of the program. At present, this information problem is mitigated because very few UDAG projects have been considered complete by HUD. However, the problem will become increasingly serious over time as the well over a thousand UDAG projects approved through the program's start and fiscal year 1982 reach completion.

We support HUD's plan to base all expectation information about future projects on grant agreement information. In addition, we believe that this information should be used for projects already approved. UDAG reporting forms, such as the closeout status reports, could be revised to fully show grant agreement expectation information. This information could be readily inserted on the forms when HUD field officials compare the results with a project's grant agreement expectations.

We believe there are several ways HUD's information system can improve the accuracy of its data on project expectations and results. HUD could

--use in its information system the financial status report provided by the grantee and reviewed by HUD field offices for accuracy and consistency with other project financial documents;

--use in its information system the closeout status report provided by the grantee and reviewed by HUD field offices for accuracy and consistency with HUD monitoring reports, grantee quarterly progress reports, and other documents;

--revise grantee reporting forms to ensure that all expectations are accounted for with deviations from expectations explained; and

--require grantees to submit information on project results immediately before HUD classifies a project as complete.

RECOMMENDATIONS TO THE SECRETARY, HUD

We recommend that the Secretary direct HUD's UDAG information system to (1) record each UDAG project's expectations according to the grant agreement or its amendment and (2) use additional, available information provided by grantees on project results up to the time HUD considers a project complete.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, HUD noted that several steps have already been taken to record in the UDAG information system a project's goals according to the grant agreement or its amendment. However, for projects approved before this procedure began in 1982, HUD stated that it would not be cost-effective to go back into the data base to obtain such information.

Our final report recognizes that, according to a director in HUD's Office of Management, the UDAG information system enters grant agreement information on jobs and investments for projects approved since 1982. In addition, we are recognizing that a new tracking system is scheduled to be set up in 1984 to obtain full expectation information according to the grant agreement for future projects. Regarding previously approved projects, we agree with HUD that it could be a costly undertaking if all project files had to be reviewed solely to obtain each project's expected goals according to the grant agreement or its amendment. However, as stated in the draft report, HUD procedures now provide that after construction is complete on a project, HUD field offices should review a project's grant agreement and any amendments for comparison with other project documents. Consequently, we believe the needed information could be obtained through an existing process.

In commenting on the use of additional available information on project results, HUD stated it is now in the process of expanding the information system to support the program's completion activities. HUD said this new system will reinforce and integrate existing tools to collect final project data, such as a grantee's final quarterly progress report.

We believe the expansion of the information system is a positive initiative, which will be responsive to the second part of our recommendation when it is completed.

CHAPTER 3

MANY SMALL CITIES MAY NEED HELP TO SECURE A UDAG AWARD

Legislation provides that no less than 25 percent of each year's UDAG appropriation be used for awards to small cities (generally defined as those with populations under 50,000). From the program's beginning in 1978 through the end of fiscal year 1982, small city awards consistently fell short of this 25 percent mark. As a result, at the end of fiscal year 1982, $142 million of $216 million in funds set aside for small cities was unobligated. This $216 million was about evenly split between funds appropriated for fiscal year 1982 and unobligated small city funds available from previous years. Despite the availability of funds, the overall percentage of potentially eligible small cities that have applied for a UDAG has been low. In October 1982, HUD's records indicated that slightly less than 8 percent of the 10,161 potentially eligible small cities had ever applied for a UDAG, while just over 4 percent had received funding.[1]

Fiscal year 1983 saw increasing activity in regard to small city UDAG awards. The awards totaled $170 million, which met the fiscal year 1983 set-aside and reduced the amount of funds carried over from previous years to $75 million. Nevertheless, the Congress remained concerned about the ability of small cities to participate in the UDAG program. As a result, the Housing and Urban-Rural Recovery Act of 1983, signed into law on November 30, 1983, authorizes up to $2.5 million of yearly UDAG funds to help increase small city participation in the program during fiscal years 1984, 1985, and 1986.

To determine the reasons for the historically low small city participation, we analyzed UDAG application and funding data, interviewed HUD officials, and surveyed a statistical sample of the most severely distressed small cities that were potentially eligible for a UDAG, but had never applied or had applied without success. We found that

--participation in the UDAG program is strongly associated with city size, with a relatively low percentage of eligible cities with populations under 10,000 applying for or receiving funding;

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[1] Cities are potentially eligible for UDAG funding on the basis of meeting HUD's minimum standards for physical and economic distress. Potentially eligible cities must also demonstrate results in achieving certain equal opportunity goals.

- --many surveyed cities were not familiar with the UDAG program; and

- --surveyed cities that knew about the program frequently had serious difficulties in planning and carrying out UDAG projects and in finding interested developers and appropriate private sector financing.

HUD has taken initiatives involving technical assistance efforts and increased field office responsibilities for UDAG which may generally help to raise small city participation in the program. We are recommending ways to supplement and improve these initiatives to help meet the congressional objective of increased small city participation.

UDAG PARTICIPATION DECREASES WITH CITY SIZE

At the time of our audit, HUD was aware of the overall percentages of eligible small cities that had applied for a UDAG (about 8 percent) as well as the number funded (about 4 percent). HUD had not, however, broken down these overall figures into narrower population strata. This is perhaps because the UDAG requirements simply stipulate that at least 25 percent of each year's UDAG appropriation must be set aside for small cities. The regulations make no further requirements regarding the distribution of UDAG funds among various population sizes of small cities.

We decided to make detailed statistical breakdowns of small city participation in order to determine the extent to which selected population ranges varied from HUD's overall percentages. To do this, we compiled UDAG application and funding data from a September 1982 HUD listing of 10,161 small cities potentially eligible for UDAG awards. By stratifying this data into population ranges, we found that the rate of small city participation was strongly associated with city size. Tables 5 and 6, on the next pages, show overall participation data for various sizes of cities.

Table 5 shows that small cities with populations over 10,000 were applying for and receiving UDAG funds to a much higher degree than the overall averages. Altogether, about half (266) of the 536 eligible small cities with populations over 10,000 have applied for a UDAG and about a third (173) have received funding. These higher percentages must be balanced, however, against an awareness that cities with populations over 10,000 represent about 5 percent of the small cities potentially eligible for a UDAG.

The small cities under 10,000, which include the other 95 percent of the potentially eligible small cities, present a case in contrast. As table 5 shows, more of these cities have applied for (517) and received (249) a UDAG than the small cities over 10,000. However, these applicant and recipient cities represent only a small percentage of the 9,625 cities in this under 10,000 range. Because the vast majority of the eligible small cities have populations under 10,000, HUD's overall UDAG participation percentages mainly reflect the activity of this large group of cities.

Table 5

Small Cities' UDAG Application/Funding Statistics[a]

Population	Number of eligible cities	Applicant cities		Funded cities	
		Number	Percent	Number	Percent
40,000-49,999	19	13	68.4	13	68.4
30,000-39,999	56	36	64.3	20	35.7
20,000-29,999	98	53	54.1	37	37.8
10,000-19,999	363	164	45.2	103	28.4
under 10,000	9,625	517	5.4	249	2.6
Overall	10,161	783	7.7	422	4.2

[a] Covers the period from initial UDAG applications and awards in 1978 until October 1982 and applies to small cities listed in September 1982 by HUD's Office of Management as meeting minimum standards for physical and economic distress. Small cities meeting these distress standards are considered to be "potentially eligible" for UDAGs, though they must also demonstrate results in achieving certain equal opportunity goals.

Further statistical breakdowns of the population range under 10,000 showed that cities with populations under 2,500 have very low application and funding rates, as indicated by table 6. These cities make up 80 percent of all the potentially eligible small cities.

Table 6

UDAG Application/Funding Statistics for Cities with Populations Under 2,500[a]

Population	Number of eligible cities	Applicant cities		Funded cities	
		Number	Percent	Number	Percent
2,000-2,499	405	40	9.9	16	4.0
1,500-1,999	588	39	6.6	16	2.7
1,000-1,499	966	42	4.3	13	1.3
500-999	2,051	34	1.7	15	0.7
under 500	4,067	24	0.6	7	0.2
Overall	8,077	179	2.2	67	0.8

[a] Covers the period from initial UDAG applications and awards in 1978 until October 1982 and applies to small cities listed in September 1982 by HUD's Office of Management as meeting minimum standards for physical and economic distress. Small cities meeting these distress standards are considered to be "potentially eligible" for UDAGs, though they must also demonstrate results in achieving certain equal opportunity goals.

More than 50 percent of applicant cities with populations of 2,500 and over received UDAG funding. Even applicant cities under 2,500 have a success rate approaching 40 percent. Table 7 shows the success rate broken down by various population strata.

Table 7

Small City Applicants' Success Rate[a]

Population	Number of applicant cities	Number of funded cities	Percent of applicants funded
40,000-49,999	13	13	100
30,000-39,999	36	20	55.6
20,000-29,999	53	37	69.8
10,000-19,999	164	103	62.8
2,500- 9,999	338	182	53.8
under 2,500	179	67	37.4
Overall	783	422	53.9

[a] As previously noted, this data covers the period from initial UDAG applications and awards in 1978 until October 1982 and applies to small cities listed in September 1982 by HUD's Office of Management as meeting minimum standards for physical and economic distress.

HUD's small city information is limited

As noted earlier, HUD has overall statistics on small city participation, but not the detailed population breakdowns that we have presented above. HUD's data system already has all the information needed for these tables, but lacks the programming to generate them. We believe that these tables are useful in isolating and tracking small city participation trends. The tables would need to be updated after each quarterly funding round, as well as whenever the eligibility list is updated. Updated tables should, for instance, reflect the latest eligibility list, issued in March 1983, which reduced the number of potentially eligible cities from 10,161 to 8,622. Our tables were developed through the time-consuming process of manually comparing thousands of entries on four different computer printouts listing information on eligibility, funded projects, nonfunded applications, and applications being held for further consideration.

HUD also lacks other information tools that would be useful in its efforts to increase small city participation in UDAG. Specifically, the data system lacks the programming needed to identify by name (1) small cities that have never applied for a

UDAG and (2) small cities that have applied for a UDAG without any success. Additionally, the data system lacks the programming to list potentially eligible small cities according to their degree of economic distress as measured by their impaction percentile[2] (rather than simply alphabetically by state). As a result, it currently would be difficult for HUD to focus attention on cities of this sort, since the lists would have to be developed and updated manually. We encountered this problem ourselves when establishing a survey universe of highly distressed nonapplicants and unsuccessful applicants for our telephone interviews (discussed below). We again had to manually compare the thousands of entries in HUD's eligibility and application history lists in order to select the appropriate cities.

Similarly, in order to learn how the statistical data in tables 5 and 6 were distributed by state, we again had to inspect these lists and manually develop the state participation tables, which are presented in appendix IV.

What factors contribute to low small city participation?

To determine why such a large number of small cities are not participating in the program, we interviewed a random sample of nonapplicant cities that were potentially eligible for a UDAG, along with eligible cities that had applied without success. Since a small city's degree of distress is the primary legislative criterion to be used in awarding UDAG funds (except for grants to nondistressed communities containing pockets of poverty), we limited our samples to cities that HUD determined were most economically distressed.[3] Our statistical sampling techniques and structured interview questionnaires enabled us to project our findings to 553 of the 628 most severely distressed nonapplicant small cities and all 33 of the most severely distressed small cities that applied unsuccessfully. HUD divides small cities into three population ranges when calculating impaction scores. The results of our statistical sample of the most distressed small cities were distributed among these three ranges as follows: (1) population 25,000-49,999: 4 nonapplicant cities and 2 unsuccessful applicant cities; (2) population 2,500-24,999: 123 nonapplicant cities and 28 unsuccessful applicant cities; and (3) population under 2,500: 426 nonapplicant cities and 3 unsuccessful applicant cities. As can be seen, small cities with populations under 2,500 make up the majority

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[2] The impaction percentile measures relative economic distress based on the age of the city's housing stock, the degree of its poverty, and the lag in its population growth. The score ranges from less than 1 (the most distressed) to 100 (the least distressed).

[3] These were cities with "impaction percentiles" of 25 or less.

(77 percent) of these 553 most distressed nonapplicant cities. In presenting our survey results, we give both aggregate response figures for all nonapplicant cities and figures for small cities with populations under 2,500.

To obtain HUD's views on these problems, we interviewed principal UDAG officials, including the UDAG office's seven senior development directors who supervise the UDAG application review process.

MOST NONAPPLICANT CITIES KNOW LITTLE ABOUT THE UDAG PROGRAM

A city's knowledge of the UDAG program is crucial because it is a competitive program requiring initiative from the city itself. We asked the nonapplicant cities in our sample to characterize their awareness of the program. Nearly 75 percent (403 out of 553) said that they had little or no knowledge of the program while the rest (150) said that they had a great or moderate awareness. Table 8 stratifies the responses by the three population ranges that HUD uses when calculating impaction scores:

Table 8

Small Cities' Awareness of the UDAG Program

	Percent of most distressed small cities		
Population range	Great awareness	Moderate awareness	Little or no awareness
	(percent)		
25,000 to 49,999	50	50	0
2,500 to 24,999	31	29	40
under 2,500	4	13	83

Once again, the problem area--in this case a low awareness of the UDAG program--is associated mainly with the smaller cities, particularly those with populations under 2,500.

Most of the UDAG senior development directors agreed that small cities' lack of familiarity with the UDAG program is a major problem. As some of these senior directors noted, many small cities have narrow communication networks and lack a full-time staff, which complicates information outreach efforts.

At present, HUD has no central UDAG information outreach mechanism. One comprehensive outreach effort was undertaken late in 1982, when HUD headquarters provided the field offices with one-page UDAG flyers (see app. V) to be sent to all potentially eligible small cities. Several UDAG senior directors stated, however, that a single contact with a potentially eligible small city probably would not be enough to get it thinking about using the UDAG program. They stressed the need for frequent, repeated contacts in order to effectively educate small cities about the program and to identify the ones that had become seriously interested in applying.

Both HUD and non-HUD information sources proved to be important for the 150 cities in our sample that had a great or moderate awareness of the UDAG program. Somewhat less than a quarter of them obtained program information solely from various HUD sources such as UDAG pamphlets, regulations, application forms, or discussions with HUD officials. Another quarter learned about the program solely from non-HUD sources such as state and local officials, news articles, consulting firms, and developers. More than half of the cities, though, learned about the program through both HUD and non-HUD sources.

NONAPPLICANTS WHO KNOW ABOUT THE PROGRAM FACE PLANNING AND FINANCING PROBLEMS

More than half of the 150 cities that were familiar with the program talked to HUD about the possibility of applying for a UDAG. Virtually all of them characterized HUD's explanation of the program as being very adequate or adequate. None of these cities, however, submitted a UDAG application. They cited a variety of problems that hindered them from submitting one--some involving the cities' own planning capacity and others involving difficulties in locating an interested developer or securing adequate private sector financing.

UDAG application process exceeds capabilities of some small city governments

A good deal of planning is needed to structure a UDAG application. An eligible city--large or small--must present HUD with a specific project that is well developed. The city must describe the project's nature, scope, and benefits. The city must also demonstrate that the project would not be economically feasible without UDAG funding by providing detailed construction estimates and cash flow projections and analyses. In addition, the city must provide evidence of financial capacity and firm commitment from the developer, the lending institution, and other involved parties.

We asked the 150 severely distressed nonapplicant cities that knew about the program whether their staff resources were adequate to put together a UDAG project. We also asked if they had funds available to hire outside help to assist their staff in planning a UDAG project. Table 9 shows the percentage of these cities that noted great or very great problems in these areas.

Table 9

Nonapplicants: Problems With City Staff Capacity

Problem	All small cities	Cities with pops. under 2,500
	---------(percent)---------	
Lack of staff to plan and carry out a UDAG project	32	33
Lack of city technical expertise to put together a UDAG project	19	33
Lack of city funds to pay for outside help to plan a UDAG project	57	78

Most cities mentioning a lack of technical expertise also said that they were short on staff. And nearly all of the cities mentioning a shortage of staff also stated that they lacked city funds to hire outside assistance for a UDAG project. Based on their responses, then we believe that about one-third of these 150 cities are severly hindered from applying for a UDAG by a lack of capacity for project planning and development.

The UDAG Senior Development Directors recognize that the lack of capacity to put together a UDAG project is a serious problem for many small cities. Most of the senior directors said that small cities may need an intermediary to help them package an application. They suggested a variety of useful roles that an intermediary could play, including information outreach to cities and developers, identifying small cities that have potential projects and bringing them into contact with HUD, and actually helping the cities with potential projects to develop an application. Favored candidates for the role of an intermediary were State agencies and, to a lesser degree, regional planning districts and counties. The recent legislation would provide technical assistance grants to state agencies and municipal associations (among others) to help small cities participate in the program (see p. 35).

Difficulties in locating private sector participants

Along with the issue of whether small cities have the capacity to put together the elements of a UDAG project is the crucial question of whether these elements are even available to them. There can be no UDAG project, of course, without private sector participants--usually developers and lending institutions--that are willing to work with the city on a project appropriate for

UDAG assistance. The 150 severely distressed nonapplicant cities in our sample that were familiar with the program noted significant problems in this area, although less in finding a developer than in finding adequate private sector financing.

We asked these nonapplicant cities whether the lack of interested developers was a factor in their not applying for a UDAG, with these results:

Table 10

Nonapplicants: Problems With Insufficient Developer Interest

Developers lack interest	All small cities	Cities with pops. under 2,500
	--------(percent,	rounded)--------
Probably	37	25
Not sure	20	38
Probably not	42	38

In addition to indicating the overall extent of this problem, these percentages address the issue of whether cities with populations under 2,500 perceive themselves as having greater difficulties in finding developers than the larger communities. Our sample shows that the rate at which cities with populations under 2,500 cited developer interest as being a problem is actually lower than the overall rate, though their degree of uncertainty on this issue is greater.

Adequate private sector financing is the other critical element in a UDAG project. This process involves two closely related requirements. First, a project's financing must be structured so that the private sector investment exceeds the amount of UDAG funds requested. Currently, the UDAG regulations stipulate that a project must have at least $2.5 of private investment for every $1 of UDAG funds (or, to use HUD's terminology, a project must have a minimum "leveraging ratio" of 2.5 to 1). Historically, leveraging ratios for funded small city projects are often higher than this, averaging about 6 to 1 between 1979 and 1982, since a higher ratio makes a project more competitive and more likely to be funded. Second, a project application must include firm commitments by the private sector participants demonstrating that they have the financial capacity to deliver the resources necessary to carry out their part of the project. In agreeing to commit these resources, the private sector must specify the amounts, terms, conditions, uses, purposes, and timing of each part of its investment.

These private sector funding requirements were a common problem for the 150 nonapplicant cities in our sample. The following table shows the percentages of the cities citing them as being a significant factor in their decision not to apply for a UDAG:

Table 11

Nonapplicants: Problems With Private Sector Financing

Problems	All small cities	Cities with pops. under 2,500
	(percent citing a "great" or "very great" problem)	
Obtaining the required amount of private sector funds	76	78
Getting firm financial commitments of private sector funding	63	56

As the table indicates, the perceptions of cities with populations under 2,500 does not differ greatly from the overall rate for all small cities.

The basic problems of finding interested developers, obtaining private sector funds, and getting firm financial commitments are interrelated in many instances. About two-thirds of the cities citing problems finding interested developers also said that they had problems obtaining adequate private sector funds, and over three-quarters of the cities citing problems obtaining private sector funds also said that they had problems getting firm financial commitments.

A few cities we interviewed stressed the need for HUD to publicize the UDAG program among private developers and investors and to promote meetings on UDAG between HUD and the private sector. They believed that the average developer does not understand the application process, especially the requirements dealing with the firm financial commitment.

The UDAG senior directors noted that the HUD field offices had at times sponsored or participated in economic development workshops or seminars at which the UDAG program was promoted among state and city officials, along with various private sector parties, such as developers, bankers, members of retail merchants associations, and chambers of commerce. However, most senior directors were not able to offer many specifics on these efforts, such as the frequency of these individual efforts. According to one senior director, these meetings do not represent a consistent, organized HUD effort.

UNSUCCESSFUL APPLICATIONS WERE USUALLY LINKED TO FINANCING PROBLEMS

Between 1978 and October 1982, about 770 UDAG applications from small cities were not funded, usually because HUD officials determined that these cities did not adequately satisfy UDAG program requirements or because the cities themselves withdrew their applications. The UDAG funds requested in these small city applications amounted to over $800 million.

According to HUD records in October 1982, 33 of the most distressed cities with impaction percentiles of 25 or less (as measured by the age of the city's housing stock, degree of poverty, and the lag in its population growth) had applied for UDAG funding without any success. Altogether, these 33 cities had submitted 43 applications: 25 cities applied once; 7 applied twice; and 1 applied 4 times. We interviewed representatives from all of these cities to determine what problems they had encountered in obtaining UDAG funds.

We found that over 75 percent (32) of the 43 applications were unsuccessful because of various problems in obtaining the non-UDAG financing needed to complement the requested UDAG funds. The cities described their particular financing problems as follows:

Table 12

Unsuccessful Applicants: Problems With Financing

Reasons cited by cities for their applications' failure	Number of applications
Failure to secure private sector financing	21
Withdrawal by the developer due to financial difficulties	3
Unwillingness of the developer to provide required written financial commitment	5
Unwillingness of the developer to meet the leveraging ratio HUD requested	2
Inability of the city to get a written financial commitment from a participating federal agency	1
Total	32

The remaining 11 applications were unsuccessful for a variety of reasons which do not fall into any significant patterns.

Some projects are proceeding

Eight of the 43 projects which were turned down for a UDAG managed to get built anyway. One of these was able to proceed by reducing its scope and using state funds. Four other projects used funds from other HUD programs, such as community development block grant funds; however, two of these projects were reduced in scope. In the remaining three cases, the projects proceeded with developers' own funds--although two were reduced in scope.

Fifteen of these 43 unsuccessful applicant cities planned to reapply for a UDAG during 1983. The projects that these cities are considering are split between new projects and modified versions of previously rejected ones. These cities, along with the nonapplicant cities we interviewed, indicated needs regarding any future UDAG applications, which are discussed in the next section.

NEEDS CITED BY SMALL CITIES TO IMPROVE PARTICIPATION IN UDAG

As our survey results indicate, many nonapplicants and unsuccessful applicants had difficulty in locating the basic elements of a fundable UDAG application--especially private sector financing. To determine the types of assistance these cities might need to develop a successful application, we asked them to rate their needs for a more streamlined application process, additional program information, and technical assistance. We then asked the UDAG Senior Development Directors to comment on these three areas.

As the table below indicates, both nonapplicants and unsuccessful applicants expressed a similar degree of need for program information and technical assistance, while the unsuccessful cities more frequently called for a streamlined application process.

Table 13

Need	Nonapplicants familiar with program	Unsuccessful applicants
	----------(percent)----------	
Streamlined application process	58	74
More program information	29	30
Technical assistance	37	42

Streamlining the application process

The UDAG application process prompted complaints from many of the 33 unsuccessful applicants. Eleven of them criticized the application form itself, characterizing it as being long, complex, duplicative, and needlessly detailed. Seven believed that the whole process took too long. A few of them stated that the complexity of the application created problems for the private sector and that the time involved in preparing the application and getting it reviewed could sometimes jeopardize a project.

A revised UDAG application form was approved in early 1983. This application includes a glossary of terms that should help applicants to prepare the required information. In keeping with recent legislative changes, some UDAG application requirements were simplified. For example, prior law required applications to include neighborhood and historic preservation impact analyses. Under the revised program, applicants must only certify that these analyses have been carried out. Also, the sections dealing with projected job and tax benefits have been revised in order to provide more specific and comparable information. Still, some of the information requested could present difficulties for small cities with limited staff that do not have money to pay for outside assistance. For instance, an applicant city must complete a three-page section (see app. VII) detailing the local tax revenue increases to be expected by the proposed project.

UDAG senior development directors noted that both the past and present practice has been to use the same application form for all projects, even though the range of awards is very broad. As one HUD study noted, the smallest UDAG award was $35 thousand (to a small city), while the largest award was $30 million (to a metropolitan city). The senior directors were divided on the question of whether a shorter applicaton could be developed to help streamline the application process for the small cities.

Information outreach

A comprehensive UDAG information package that could be used effectively by small cities of various sizes and the private sector is not available. Several senior directors noted that there was a gap between very brief UDAG information, such as the one-page flyer, and the detailed information found in the application materials. An extensive "user's guide" to the program has been in the draft stage for several years, but was still not in final form at the time of our audit. The current draft is a lengthy, procedures-oriented explanation of the program's regulations from the application stage to the final completion of a funded project. Another draft handbook, designed for use by small cities, may partially fill this information gap. It was scheduled to be ready in late 1983, but was not finalized at the end of the year.

Technical assistance

In general the UDAG senior directors did not believe that HUD needed to develop a central technical assistance plan aimed at helping small cities participate in the program. Most of them maintained that UDAG technical assistance efforts need to be flexible so that they could be adapted to the particular problems of a locality. Most senior directors believed that the HUD area offices might be able to provide more assistance.

We asked the senior directors about the advisability of targeting technical assistance to the most distressed small cities that have not applied for a UDAG or have applied without any success. Although some senior directors cautioned that the most distressed small cities would be harder to work with, nearly half believed that this approach might be feasible. Most of the senior directors did not have specifics on how small cities were currently selected for technical assistance by the HUD field staff or on how many had actually received such aid. Officials in the UDAG Director's office further noted that there were no nationwide guidelines for selecting cities for UDAG technical assistance.

At the time of our audit, officials from the Office of UDAG cited four major ongoing technical assistance contracts aimed at increasing local economic development through UDAG and other federal programs. Only one of these provides direct technical assistance on UDAG to small cities selected by HUD. Two of the contracts emphasize broad economic development initiatives at the state government level. Among other things, the contracts are aimed at helping states to improve their own ability to promote and support local economic development. The UDAG program is presented as one of the resources that states can use in this regard. The other two contracts focus on assistance to particular cities and projects. One deals exclusively with increasing minority business participation in UDAG in selected metropolitan cities. The second provides UDAG technical assistance to selected metropolitan and small cities. The terms of this contract provide for a broad range of assistance activities, from helping cities develop projects to solving implementation problems encountered by cities receiving UDAG funds. Between April 1982 and July 1983, 47 small cities were helped under this contract. Most of this assistance was concentrated on working out problems with projects that had already been submitted for consideration or had been funded. In addition to these four ongoing contracts, HUD awarded a contract to McManis Associates in June 1983 to provide information workshops and direct technical assistance to selected small cities. Since this new contract was in its initial stages at the time our review ended, we did not assess how well it would address the small city problems we identified. (See app. VI for details on these five contracts.)

Another UDAG-related initiative is currently in its trial stages. In February 1983, HUD began a demonstration project aimed at developing the regional offices' ability to assist both the HUD area offices and the UDAG office in various aspects of the program. Five of HUD's 10 regional offices have been instructed to appoint a Senior Economic Development Specialist to act as "point person" for UDAG work in the region. Initially, this work will involve evaluating UDAG applications to identify and, with the area office's help, correct any observed deficiencies. The specialists will also evaluate the skill level of the field staff and develop a training strategy to remedy weaknesses. In later months, the specialists' responsibilities are supposed to be expanded to include coordinating UDAG public relations, developing an information outreach plan, assisting in the development of a technical assistance strategy, maintaining an orderly information flow between the area offices and the UDAG office, and assuring that the area offices are properly managing, monitoring, and closing out UDAG projects.

RECENT LEGISLATION PROVIDES FOR INCREASED UDAG TECHNICAL ASSISTANCE

The Housing and Urban-Rural Recovery Act of 1983, signed into law on November 30, 1983, authorizes HUD to use up to $2.5 million of yearly UDAG funds to make technical assistance grants to States or their agencies, municipal technical advisory services operated by universities, or state associations of counties or municipalities to enable these entities to help small cities develop, apply for assistance, and implement programs eligible for UDAG funding. In addition, the act permits a consortia of nearby small cities (including county governments that are not urban counties) to apply for a UDAG on behalf of their members.

CONCLUSIONS

A high percentage of small cities potentially eligible to receive a UDAG have not applied for funding. These include cities rated by HUD as being among the most severely distressed. We recognize that some of these communities may have inherent problems or a limited economic base that make them unappealing to developers and investors, even with UDAG funding. Nevertheless, we believe that HUD needs to make a concerted effort to meet the congressional objective to increase small city participation.

Currently, HUD does not have a plan which guides its technical assistance efforts to small cities. Officials in the UDAG office have stressed to us the need for flexibility in helping small cities to participate in the program, and we support their view. Nonetheless, we believe that this desired flexibility can be retained within a plan that would identify highly distressed, nonfunded small cities and establish goals and criteria for selecting them for technical assistance. We believe that such a plan is appropriate in view of (1) the large number of potentially eligible small cities, (2) the limits on HUD's staff resources, (3) the lack of criteria for selecting cities to receive technical assistance to help them participate in the program, and (4) the technical assistance funds made available for helping small cities in the recently enacted Housing and Urban-Rural Recovery Act of 1983.

As our interviews with a sample of these highly distressed cities indicate, most of them have little or no knowledge of the UDAG program. To address this situation, a comprehensive package of information materials is needed to help promote the program among distressed small cities as well as the private sector. HUD, however, currently lacks such an information package.

Both the UDAG officials and the small cities we interviewed recognize that another major participation problem stems from the limited capacity of many small city governments to plan a UDAG project and prepare an application. The application form remains complex despite recent revisions. We believe additional revisions, aimed at simplifying the application process for small cities, could help communities with limited staff resources apply for a UDAG.

RECOMMENDATIONS TO THE SECRETARY, HUD

We recommend that the Secretary of HUD take the following actions to help increase participation in the UDAG program of cities with populations below 50,000.

--Develop a plan aimed at helping severely distressed small cities participate in the UDAG program by (1) identifying highly distressed, potentially eligible small cities that have not applied for, or received, funding; and (2) establishing goals and criteria for selecting small cities to receive technical assistance to help them participate in the UDAG program.

--Develop comprehensive UDAG information materials to help educate small cities and the private sector about the program.

--Develop and test a streamlined application form for use by small cities.

AGENCY COMMENTS AND OUR EVALUATION

In responding to our recommendations, HUD agreed on the need for additional UDAG information materials, but disagreed on the need to develop a plan for selecting small cities to receive technical assistance or a streamlined application form for small cities.

In disagreeing with the need to develop such a plan, HUD mentioned its recent initiatives to further its information and technical assistance efforts for small cities (discussed in this chapter). HUD believes that the impact of these efforts has been significant. For example, the July 1983 funding round included the largest number of projects (84) ever announced for small cities and one of the greatest dollar amounts ($57.5 million). HUD also noted that for the first time in the history of the program, it announced funding of more than the 25 percent mandated set-aside for small cities in the first three funding rounds of fiscal year 1983. During all of that year, a total of 241 projects with $170.3 million was announced. HUD, therefore, does not believe that a plan, as such, is called for at this time.

We recognize on page 20 that fiscal year 1983 saw increasing activity in regard to small city UDAG participation, but we also note that the amount of unused small city funds at the end of fiscal year 1983--$75 million--is still substantial. This amount represents almost 70 percent of the $110 million in new UDAG funds made available to small cities in fiscal year 1984. We continue to believe that a plan needs to be developed for guiding and coordinating the various small city efforts conducted by HUD headquarters, field offices, and technical assistance contractors. This general guidance is particularly important in view of HUD's recent decision to establish regional UDAG coordinators responsible for UDAG outreach and technical assistance. A plan such as we have described would give these field coordinators a general framework within which to devise strategies suitable to the special needs of their regions. The wording of our recommendation was modified to clarify our intent.

In our draft report, we recommended that HUD establish a list of the most economically distressed, nonfunded small cities for possible information outreach and technical assistance. We believe that this is an appropriate recommendation in view of the limits on HUD's staff resources and the large number of potentially eligible small cities. HUD disagreed, however, and replied as follows:

> "This is not a proper role for HUD. The UDAG program is by law a national competition. We cannot favor one city over another. It is a local decision whether to apply for UDAG assistance. It is the obligation of this Office to promote the program and provide program information. As the data indicates, the largest number of small cities is under 2,500 in population, including many severely distressed cities. It is likely that development opportunities may not be available in these cities. We cannot and should not try to create development opportunities where they do not exist. We only have a limited staff and limited technical resources available to assist cities with all phases of the UDAG process. We have made the decision to concentrate our scant resources on viable UDAG deals."

Because we believe that HUD misinterpreted this recommendation, we modified it and combined it with our first recommendation in order to more clearly convey our intent. We are not advocating that HUD try to create development opportunities where they do not exist or to establish improper, preferential policies. Nor are we suggesting that HUD change the competitive structure of the selection process. We agree with HUD that it is appropriate for HUD to provide cities with program information so that they are in a position to apply for a grant. We also believe that it is consistent with the program's recent legislation for HUD to take action to inform small communities of the program's existence and to provide technical assistance funds to help small cities develop competitive applications. We believe that to effectively accomplish these objectives, HUD needs to establish criteria for selecting small cities for technical assistance. We believe that focusing these efforts on the most distressed small cities that have not received UDAG funds is appropriate in view of the large number of potentially eligible small cities and the limits on HUD's staff resources. HUD itself has, in the past, selected cities for special information outreach and technical assistance efforts. Most recently, HUD's contract with McManus Associates (see p. 77) involves the selection of several hundred small cities for UDAG information workshops. A few dozen of these workshop participants will be chosen for further technical assistance. Our recommendation uses HUD's nationwide distress criteria and is in harmony with the program's legislative requirement that the primary criterion for selecting a small city for a UDAG be its degree of economic distress.

Finally, regarding our recommendation that HUD develop and test a streamlined application form for use by small cities, HUD responded that procedures have already been implemented to streamline the entire UDAG application/award process and that a shorter application form is being used. HUD maintains that the information called for is the minimum amount needed by HUD to make informed funding decisions and that further streamlining is not needed nor does streamlining address the problem that faces small cities in the UDAG program. Our survey results presented in this chapter indicate, however, that the application process was a significant problem for small cities. As we state in the report, the revised application form remains complex despite recent revisions. This form is used for both modest funding requests and multimillion dollar requests. About half of the UDAG senior development directors agreed with us that a shorter application form could be developed to help streamline the application process for small cities.

CHAPTER 4

CLEAR POLICY NEEDED ON UDAG REPAYMENTS

A city receiving a UDAG to help finance a project may choose to convey these funds to a developer in the form of a grant or a loan. Increasingly, cities have chosen to loan the UDAG funds and use the repayment[1] to support other community and economic development activities. Many of these loans will result in millions of dollars being repaid to cities. HUD has not, however, resolved an important question regarding the timing of these repayments: if a city receives repayments while UDAG funds are still being spent on a project, should these early repayments be applied to the project in place of additional UDAG funds or is the city free to use the repayments for other community and economic development activities? The standard UDAG grant agreement ordinarily requires that these repayments be applied to the project, but the UDAG officials' intent, as expressed in negotiations with cities, was that cities keep the repayments for additional development activities. Some cities have been given exemptions to the standard grant agreement provision. There is confusion, however, over whether cities without such exemptions will be allowed to use early repayments for other projects.

HUD officials are aware of this problem, and one solution they proposed provides for grant agreement amendments. These amendments would mean that UDAG repayments would not have to be used in place of additional UDAG funds already approved for a project. Rather, the repayments would be held in an interest-bearing account until the project was complete or used for related, unfunded project activities. The proposed change would conform the agreements to the understanding of the parties that UDAG repayments would be available for other community and economic development activities.

UDAGs ARE INCREASINGLY STRUCTURED TO BE REPAID AND MILLIONS OF DOLLARS MAY BE REALIZED

Depending on the project, a city could provide the UDAG funds as a grant or a loan to a private developer. Increasingly, loans have been used, which has meant that developers often have to repay the UDAG funds along with interest.

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[1] Throughout this report, repayments refer to both principal and interest payments received on a loan, unless specifically noted otherwise.

From fiscal year 1978 through September 9, 1982, HUD approved about 1,400 UDAGs. Almost 60 percent of these projects resulted in loans to private developers. This percentage largely reflects a steady increase in the use of UDAG funds as loans rather than grants to private developers. In the program's early years, HUD reported that only about one-quarter of all UDAG funds was loaned by cities to private developers. By the end of fiscal year 1982, 86 percent of all UDAG dollars were used for loans.

The use of UDAG loans is common for New York and Michigan projects. In September 1982, cities in these two states accounted for 25 percent of all UDAG loan dollars to be repaid. Michigan had 32 and New York had 137 approved applications with a specified amount of UDAG dollars to be repaid. Our review included 41 projects--12 in Michigan and 29 in New York.

For the projects reviewed, city officials attributed the structuring of UDAG funds as loans to reasons such as these:

--Local governments prefer to recapture funds from private developers for reuse on other economic development activities.

--HUD officials encourage or require cities to recapture funds from private developers.

--Local government policy dictates the recapture of funds provided to private developers.

--Analysis of the company's projected sales indicated that a loan could be repaid by the company.

Uniqueness characterizes UDAG loans

There are no standard UDAG loan amounts, terms, or conditions. UDAG repayments could come from a loan carrying an interest rate of anywhere from 0 to market rates and terms of anywhere from 1 to 50 years. This is because each project's repayment is tailored to the individual project. Some reasons cited by city officials for the various loan terms were the following:

--The terms of loan repayments were the result of negotiation between the city and the developer.

--HUD negotiated the repayment terms based on the project developer's expected cash flow.

--In the early years, the project was believed to be risky; accordingly, the interest rate was lower and was to increase once the project became profitable.

For the 29 New York projects we reviewed, the interest rates ranged from 0 to 15 percent. Nine of these projects had variable interest rates. For instance, one loan was to be repaid over 25 years, with an interest rate that ballooned from 6 percent in the first 2 years, to 10 percent in years 3 through 5, to 14 percent in years 6 through 25. In addition to loan repayments, five projects provided for city participation in future business profits.

Similarly, there were substantial differences in the 12 Michigan loans we reviewed. For instance, the interest rates ranged from 0 to 12.25 percent. Four of the loans were to be repaid in less than 10 years; three were to be repaid in 10 to 20 years; the remaining five loans were to be repaid over more than 20 years.

In contrast, our recent report on rental rehabilitation funded under the Community Development Block Grant Program (GAO/RCED-83-148, July 11, 1983) noted that under this program few communities were providing flexible financing based on the individual project. Further, we reported that low interest loans provide a continuing source of funding for future rehabilitation work--as loans are repaid, the recaptured funds are loaned out again. Nevertheless, recaptured funds have several disadvantages. For instance, repaid funds are worth less because of inflation.

Loan repayments can sometimes be substantial

The 41 UDAG projects we reviewed had a total loan face value of $106 million and a present value of $68 million.[2] Loan face values ranged from less than $100,000 to $21.5 million.

Specifically, the 29 New York projects had a total loan face value of $73 million and a present value of $51 million. The largest loan was for $21.5 million, which is to be repaid over 30 years, with 6 percent annual interest. The present value of this loan is $12.7 million. Another large loan was for $6.5 million, with 5 percent annual interest over 20 years. The present value is $4.4 million. Some of the New York projects, however, represented relatively small loans. For instance, a loan of $131,000 was to be repaid over 20 years, with annual interest of 5 percent. The present value of this loan is $87,000.

The 12 Michigan projects we reviewed had a total loan face value of $33 million and a present value of $17 million. One project significantly affected these totals, as its face value was $17.3 million. However, it had a present value of only $4.2 million due to interest-free terms and a 40-year repayment period. In contrast, another Michigan project had a loan face value of $1.3 million and a present value of $1.4 million. The higher relative present value results from five equal annual loan principal payments, with 12.25 percent interest.

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[2] To calculate the present value of UDAG repayments, a discount rate of 10 percent per annum was used. This was the current approximate average yield for outstanding marketable U.S. Treasury obligations at the time of our audit work.

Projects have already started recapturing UDAG funds

UDAG loan repayments are usually deferred for the first several years of a project, but some projects are now beginning to realize repayments. Through the end of fiscal year 1982, HUD reported that repayments totaled $19 million--$12 million in large cities and $7 million in small cities. This figure is likely to increase substantially as more projects approved in later program years begin repayments.

For the New York and Michigan projects we reviewed, about 40 percent of the projects had started to realize loan repayments by the end of calendar year 1982. These repayments totaled about $1.7 million. Ten of the 29 New York projects we reviewed had realized almost $500,000 in UDAG repayments. The repayments ranged from $2,000 to $113,000. Of the 12 Michigan projects we reviewed, 7 had already begun recapturing UDAG funds. Over $1.2 million had been repaid, representing over $494,000 in principal and over $754,000 in interest.

Some of these repayments were received while additional federal UDAG funds were being requested for the projects. For example, three Michigan projects realized repayments while the cities continued to request additional UDAG project funds for these projects. For one of the projects, the city received $354,849 from UDAG repayments by June 17, 1982, but later in the month used $266,640 in additional UDAG funds. The repaid UDAG funds were used to acquire and clear a 21-acre site for an industrial park. Another city received $13,000 in repayments before using the last $20,000 in UDAG funds. This city has already contributed a part of the repaid UDAG funds to a nonprofit charitable corporation responsible for building and operating a primary care medical clinic. The city council also plans to use repayments for economic development and job creation activities.

Other cities generally indicated that they also planned on using the repayments for community and economic development activities. For example, one city deposited a portion of the repaid funds into a revolving loan fund to make loans to businesses and industry in the city and a portion into a downtown development fund for public improvements. A second city deposited its repayments into a community development fund but committed a portion of the repayments to pave a road leading to an Indian reservation. Two other cities deposited the entire repayment into a revolving loan fund to make loans for economic development projects.

These plans parallel the various benefits that city officials stated could be derived from their receipt of UDAG repayments. Among the benefits mentioned were the following:

--The city can have the flexibility to create a revolving loan fund for local economic development.

--The city can use recaptured funds to encourage private investment and create new jobs and tax revenue.

--The city can foster further development through industrial park projects and downtown improvements, in addition to creating jobs and increasing the tax base.

--The city can help failing businesses and attract new ones.

HUD NEEDS TO DEVELOP A POLICY ON REPAYMENTS

The UDAG program's standard requirements provide that if the developer starts making repayments to the city before UDAG funds have been fully spent, then the repayments should be used to reduce the amount of UDAG funds authorized for the project by HUD. Various exemptions, however, have been made to the standard requirements, which have enabled some cities to use early repayments for other community and economic development activities. For those cities without such exemptions, there is confusion over whether they should also be able to use early repayments.

According to the Director of the Office of UDAG, it has always been the UDAG staff's intent that cities keep and use UDAG repayments for additional economic development activities. The Director stated that this intent has been expressed at meetings with mayors and other government officials and in negotiations with cities and participating parties.

HUD is now realizing, however, that its intentions and understandings with cities cannot always be fulfilled in cases where UDAG funds are still being spent on a project. This is due to the UDAG regulation and standard grant agreement, which provide that such early repayments should be used to reduce the UDAG funds needed for the project. After UDAG project activities are completed, repayments are considered city money available for community and economic development activities.

While HUD's standard requirements recognize the possibility of early project repayments, HUD officials did not expect such repayments to be common. A draft memorandum from HUD's Assistant Secretary, Community Planning and Development, states that recaptured UDAG funds received prior to completion of UDAG activities were not anticipated for most projects. However, construction delays have resulted in some loan repayments being received before UDAG activities are complete.

HUD program officials have modified these requirements on a case-by-case basis to bring grant agreements in line with HUD's intent. This was done by means of riders added to the grant agreement, which ensured that repayments do not reduce the UDAG funds granted for a project.

These riders are common, although they are not uniform among projects. For instance, of the 41 projects we reviewed, 19 contained various riders. Among them were the following:

--One project's rider stated that any repayments received by the city should not cause a reduction in the grant amount.

--Another project's rider stated that loan repayments should be used to provide venture capital to minority businesses in the city.

--A third project's rider stated that loan repayments should be spent on community development activities.

These riders have made it possible for some cities to use early project repayments for other community and economic development activities. Not all cities, however, have been granted riders. One reason for this, according to a HUD attorney, is that there is no policy on when such riders should be given.

For those projects without riders, there is confusion as to whether the standard repayment requirements should apply. HUD regional and area office representatives in New York stated that it was not clear what cities without riders should do with recaptured UDAG funds. The Buffalo Area Office Director of Community Development stated that over a year ago he requested HUD headquarters to clarify the repayment issue. He added that while there has been no final clarification, headquarters did state that until a policy is issued, cities without riders should deposit UDAG repayments in an interest-bearing account. HUD field offices are advising some cities to do this. For instance, one city in New York had received $280,000 in repayments as of May 31, 1982. This city had reprogrammed some of the money for eligible community development activities. However, HUD field officials advised the city to put the repayments in an interest-bearing account until headquarters clarified the repayment issue.

HUD program officials would like to resolve the issue of HUD requirements that treat cities differently. One solution HUD is considering would provide amendments to the standard grant agreement requirements for those projects which HUD determines on a case-by-case basis are in need of riders. Such projects would be those that (1) may receive repayments before UDAG project activities are complete and (2) are required by the standard grant agreement to use these repayments prior to, and in place of, additional UDAG funds. The solution was proposed by a HUD assistant secretary in a draft memorandum, which noted that in order to correct oversights in existing projects, all UDAG projects would need to be reviewed to determine if grant agreement amendments are necessary. The memorandum states that such amendments will be made to require that repayments (received or anticipated to be received before UDAG activities are complete) be placed in an interest-bearing account to assure completion of project activities. Or, if there is assurance of adequate funds to complete the project, the city can request an amendment to undertake related, unfunded project activities. These proposed amendments would not change the scope or purpose of the grant or require an additional obligation of appropriated funds.

According to the UDAG director, one reason why the amendments have not been made is that amending grant agreements may be controversial and legally questionable, especially retroactively amending a grant agreement after the city has received repayments. The director went on to note, however, that where the intent of the parties to the grant agreement was for the city to keep all of the repayments, the grant agreement must be amended to conform to that intent and understanding. Another reason, cited by a HUD attorney, is that there is a question as to whether both principal and interest repayments should be applied to a project if HUD decides that repayments should be used for a project. Moreover, no final HUD decision has yet been reached on when cities should be able to use loan repayments.

PREVIOUS DECISIONS BY THE COMPTROLLER GENERAL HAVE ALLOWED GRANTEES TO RETAIN REPAYMENTS

Federal grants differ in several important respects from other appropriated funds. As a general rule, "income" generated from federal funds from whatever source should be returned to the Treasury. However, with regard to grant funds, the Comptroller General has held that the

> ". . . benefits resulting from the use of the grant technique extend to making the funds, while under the control of the grantee, free from the statutory restrictions generally applicable to the expenditures of appropriated moneys by the departments and establishments of the government." 44 Comp. Gen. 87, 88 (1964).

In other words, grant funds in the hands of a grantee largely lose their character and identity as federal funds. Generally, all that is required is that the grant be for a valid purpose and that the expenditures not be prohibited by the terms of the grant agreement.

The standard UDAG grant agreement currently restricts the disposition of repayments that are referred to as "program income," because it provides that these funds should be used prior to, and in place of, additional UDAG funds. The standard grant agreement defines program income as including principal and interest repayments received by grant recipients during a UDAG project. Attachment "E" to Office of Management and Budget (OMB) Circular A-102 defines program income as "gross income earned by the grantee from grant supported activities." In our opinion, loan principal repayments represent the preordained return to the community of the funds which the community already has been granted, and therefore would not generally fall within OMB's definition of program income.

Interest payments present a different problem since OMB's definition considers the payments to be program income. Nevertheless, the special nature of grant funds has led the Comptroller General to hold that, once grant funds are applied for grant purposes, program income received through grant activities may be retained by the grantee. For example, in 44 Comp. Gen. 87 (1964), we authorized a grantee to finance other grant-related activities through the retention of program income derived from the sale of publications which had been originally financed by federal grant funds. In another instance, the grant agreement required the return of program income to the United States "unless otherwise authorized" by the grantor agency. Because the grantor agency could, in its discretion, allow grantees to retain program income, we had no objection to the grantor agency permitting grantees to retain program income.

Although HUD program regulations and the standard UDAG grant agreement require program income received prior to the completion of construction on all grant funded activities to be used prior to any draw on grant funds, both the program regulations and the grant agreements give HUD the authority to direct a different use of program income. This could be achieved through retroactive grant agreement amendments.

We are not aware of any legal prohibition to such retroactive amendments, especially since it is extraordinarily unlikely that any of the parties to the grant would object. In several previous cases, we have held that retroactive amendments to grant agreements are permissible provided they do not affect the scope or purpose of a grant, thereby requiring the obligation of additional funds after the appropriation under which the grant was made has ceased to be available for obligation. (See 60 Comp. Gen. 540 (1981) and 58 Comp. Gen. 676 (1979).) For the case at hand, HUD does not propose to change the scope or purpose of the UDAG grants and no further obligation of appropriated funds is contemplated because the initial grant amount would remain the same. The proposed change would conform the agreements to the understanding of the parties that program income would be available for other community and economic development activities.

CONCLUSIONS

Cities have and will receive UDAG loan repayments, which arise when UDAG funds granted to a city are loaned to a private developer. At present, HUD requirements provide that loan principal and interest repayments should be used to reduce the UDAG funds needed for a project, if they are received before UDAG or city activities are complete. HUD's standard grant agreement states that such principal and interest repayments are program income. We observe that principal repayments typically are not considered program income as these funds are not "earned" by the grantee. Rather, principal repayments merely represent the preordained return to the community of the funds which HUD has already granted to the community.

Interest repayments, on the other hand, are also classified as program income by the grant agreement. These repayments would come under OMB's definition of program income, since attachment "E" to OMB Circular A-102 defines program income as "gross income earned by the grantee from grant supported activities." According to HUD's standard requirements, these interest payments should be used in place of additional UDAG funds until UDAG or cities' activities are complete. However, these HUD requirements are frequently changed through riders to the standard grant agreement. Not all projects, though, have received riders, and there is no policy on when they should be given. HUD has been aware of this problem for over a year, and senior program officials would like to correct it through amendments to existing grant agreements.

We believe that HUD has the authority to retroactively amend grant agreements, if it decides to do so, provided that the amendments do not affect the scope or purpose of the grants or require the obligation of additional funds beyond those provided by the federal grant. The retroactive grant agreement amendment proposed in a draft memorandum by the HUD assistant secretary would not change the scope or purpose of the grants or require an additional obligation of appropriated funds.

RECOMMENDATION TO THE SECRETARY, HUD

We recommend that the Secretary of HUD develop and issue policy guidance defining the circumstances under which cities should be able to use early UDAG repayments.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, HUD noted that the use to which UDAG repayments are to be put varies depending on the terms of the grant agreement involved. HUD further stated that complete consistency for all UDAG projects in regard to the use of repayments is not to be expected nor necessarily desirable.

We are not saying or implying that the cities' use of UDAG repayments should be standardized. Our report notes that there are no standard UDAG loan amounts, terms, or conditions, and it comments on the various community and economic activities that cities are planning or undertaking with their UDAG repayments. Our point is that there should be a clear policy to resolve the existing confusion over whether early UDAG repayments should be considered city money. Our recommendation has been rephrased to clarify our intent.

HUD stated that some actions have been taken which, along with anticipated amendments to the program regulations, will further clarify the repayment requirements. HUD stated that pending their issuance, policy guidance will be transmitted to UDAG recipients through HUD field offices.

HUD's proposed actions appear to be responsive to our recommendation.

ADDITIONAL DETAILS CONCERNING

OBJECTIVES, SCOPE, AND METHODOLOGY

UDAG PROJECTS SURVEYED TO DETERMINE EXPECTATIONS AND RESULTS

The universe of completed UDAG projects is not representative of the overall UDAG universe for several reasons. For example, completed projects primarily approved in 1978 and 1979 are frequently less than the overall average UDAG grant. As a result, our findings do not extend further than the projects reviewed.

We did not determine whether UDAG funds were being substituted for private sector or state or local government funds. This is because the 1978 and 1979 projects we reviewed were approved prior to a December 1979 legislative amendment that requires HUD to assess whether UDAG funds are substituting for other available funds. In other words, the possible instances of substitution of funds in 1978 and 1979 projects would not be of value in assessing the effectiveness of the legislative amendment or resulting agency actions.

When we made our selection on September 9, 1982, only 66 UDAG projects had been classified by HUD as complete. Since we had already selected Michigan and New York for review of UDAG loan repayments (see p. 51), we decided to select completed projects within these states or in close proximity to them. For New York, there were 10 completed projects of which we randomly selected 6 for review. There were no completed UDAG projects in Michigan, but Illinois had four such projects and Ohio had two, which we selected. In total, we reviewed 12 of the 66 completed UDAG projects, or 18 percent.

SMALL CITIES PARTICIPATION IN THE UDAG PROGRAM

To obtain information on why some potentially eligible small cities (under 50,000 population) have not received UDAG funds, we selected a statistical sample of small cities that (1) had never applied for a UDAG or (2) had applied without success. We limited our sample to those cities that are shown to be most distressed by a UDAG standard referred to as the impaction score. The score represents the sum of the weighed standardized scores for population growth, poverty, and pre-1940 housing. The score ranges from less than 1 (the most distressed) to 100 (the least distressed). We considered the most distressed to be cities with a score of 25 or less. Townships (and towns) meeting the distress standard were not included in our review because their UDAG eligibility depends, among other things, on their performing functions comparable to those associated with cities. Also, we did not attempt to assess the attractiveness of the eligible small cities' investment climate. Distressed small cities could have disadvantages, such as poor roads and low levels of public service, that would not adequately be compensated for through UDAG assistance.

Based on information provided by HUD's Office of Management, we developed statistical information on small city eligibility and application patterns. From this information, we determined that 628 small cities had impaction scores of 25 or less and had never applied for UDAG funds. We randomly selected 106 small cities to be interviewed by telephone using a structured questionnaire (see app. II). We were able to complete 92 of the interviews, usually with mayors or community development officials. This response rate enabled us to project our findings to 88 percent, or 553, of the 628 most distressed small cities that have never applied for UDAG funds. In addition, we determined that a total of 33 small cities with impaction scores of 25 or less had applied without success. All of these were interviewed by telephone using another structured questionnaire (see app. III). We conducted our interviews during December 1982 and January 1983.

Of the 8,077 cities with populations under 2,500, only 67 received UDAGs, and of these only 3 had impaction scores of 25 or less. We did not include a sample of successful applicants in our survey because the data obtained from such a small number would not be useful in characterizing success factors for cities with populations under 2,500.

REPAYMENT OF UDAG LOANS

To obtain UDAG repayment information, we used a September 9, 1982, HUD listing of all approved UDAG projects, identified projects where a specified amount[1] of UDAG funds were scheduled to be repaid, and totaled the repayment amounts according to state and cumulatively. We selected New York and Michigan for review because 25 percent of all specified UDAG repayments were located in these states. Michigan had 32 approved UDAG projects with specific repayment amounts, but at the time of our review only 13 of the projects were active or completed, with repayment provisions finalized. Since the file information for one of these projects was unavailable, 12 Michigan projects were reviewed. New York had 137 projects with a specified amount of UDAG dollars to be repaid. Five of these projects accounted for about 60 percent of specified UDAG repayments for all New York projects. These 5 and 30 randomly selected projects represented our initial selection. Six projects were eliminated from the sample because they were not completed or active with repayment provisions finalized. In summary, we reviewed a total of 12 Michigan and 29 New York projects to obtain UDAG repayment information.

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[1] UDAG project repayments based on profits to be generated were excluded since repayments are contingent on a future unknown profit level.

To calculate the present value of UDAG repayments, a discount rate of 10 percent per annum was used. That figure was the current approximate average yield rate for outstanding marketable U.S. Treasury obligations. Because we considered only active UDAG projects, each of which has unique loan terms, we believe that the value of these projects' repayments cannot be extended to other projects in a statistically meaningful way. Our intent was to show an order of magnitude rather than precise estimates. We believed this method was preferable due to the imprecise nature of an assumed discount rate as well as the use of incomplete data which required certain assumptions. For instance, we assumed that repayments would be in compliance with stated loan terms. We believe that the net impact of the assumptions will not materially affect the results obtained if they are considered as order-of-magnitude estimates, rather than precise estimates.

U.S. GENERAL ACCOUNTING OFFICE

Telephone Survey of UDAG Non-Applicants

1 Card Number

☐☐☐ Case Number

☐ Community Category

☐ Population Category

☐☐☐.☐☐ Impaction

☐☐ HUD Region

City ______________________

Municipal phone no. __________

1st Referral: ______________

Title: ____________________

Phone: ____________________

2nd Referral: ______________

Title: ____________________

Phone: ____________________

3rd Referral: ______________

Title: ____________________

Phone: ____________________

Telephone/ HUD Region ______________

Call back for information on questions:

____

GAO Caller ______________________

Interviewee ______________________

Hello, my name is and I'm with the U.S. General Accounting Office in Washington, D.C. We are an agency of Congress responsible for evaluating Federal programs.

We're currently evaluating a HUD program called the Urban Development Action Grant program--also known as the UDAG program. We're gathering information on why cities such as yours have not applied for UDAG funds.

I would like to broadly discuss your community's economic development needs, as well as specifics regarding the UDAG program. Are you the right person in your city to talk about this? My questions should take about 15 minutes. Is this a convenient time?

Non-Applicant Questionnaire

1. I'd like to begin by asking you to what extent, if any, do you have economic development needs for commercial, industrial, and housing projects.

	Very Great	Great	Moderate	Some	Little or No
	1	2	3	4	5
(1) Commercial					
(2) Industrial					
(3) Housing					

2. I'm going to read you a list of government programs, and I would like you to tell me if your community has received funding from any of them during the last three years.

	Y	N	DK
	1	2	3
(1) Dept. of Commerce's Economic Development Administration programs			
(2) USDA's Farmer's Home Administration program			
(3) HUD's Community Block Grant Entitlement Program			
(4) HUD's Community Block Grant Small Cities Program (which may be State administered)			
(5) Other Federal programs (please specify) ______________ ______________ ______________			
(6) State programs (Please specify ______________			

3. To what extent are you aware of the UDAG program?

(1) __ To a great extent

(2) __ To a moderate extent

(3) __ To little or no extent

(If 3, thank respondent and terminate interview)

4. How did you learn about the UDAG program?

	Y 1	N 2	DK 3
(1) Newspaper/magazine articles			
(2) UDAG pamphlets and brochures			
(3) UDAG application instructions/regulations			
(4) Discussions with HUD officials			
(5) Discussions with State officials			
(6) Discussions with local officials			
(7) Other (Please specify) ______			

______

______

______

5. Have you ever applied for UDAG funding?

(1) __ Yes (Go to "Unsuccessful Applicant Questionnaire")

(2) __ No

6. Did you or anyone else representing your community have any contact with HUD to discuss applying for this program?

(1) __ Yes

(2) __ No (Go to Q 8)

(3) __ DK (Go to Q 8)

7. How adequate or inadequate was HUD's explanation of how the program works?

   (1) __ Very adequate

   (2) __ Adequate

   (3) __ Not sure

   (4) __ Inadequate

   (5) __ Very inadequate

8. I'm going to read a list of program requirements. Would you tell me if any of these requirements was a factor in your community's not applying for UDAG funds?

	Definitely a Factor 1	Probably a Factor 2	Uncertain 3	Probably Not a Factor 4	Definitely Not a Factor 5
(1) obtaining the required private sector funds					
(2) getting a firm financial commitment of private sector funds					
(3) meeting the requirement that UDAG funds should not be used in place of other private or public sector funds					
(4) meeting the equal opportunity regulations					
(5) other requirements or procedures (Please specify) ____________ ____________________					

9. I'd like to read you several other possible reasons for your community's not applying for a UDAG. Could you tell me whether they apply to your community?

	Definitely Applies	Probably Applies	Uncertain	Probably Does Not Apply	Definitely Does Not Apply
	1	2	3	4	5
(1) Is there an adequate number of staff in your community to plan and carry through a UDAG project?					
(2) Is the necessary expertise available to put together a project?					
(3) Do you have the money to pay for planning a UDAG?					
(4) Is there sufficient developer interest?					
(5) Are there other reasons? (If so, please specify) ______ ____________ ____________					

10. In your opinion, what is needed to help your community in applying for UDAG funds:

	Very Great Need	Great Need	Moderate Need	Some Need	Little or No Need
	1	2	3	4	5
(1) Additional program information? ______________________ ______________________ ______________________					
(2) Technical assistance? ______________________ ______________________ ______________________ ______________________					
(3) A streamlined application process? ______________________ ______________________ ______________________ ______________________					
(4) Other - Please specify ______________________ ______________________ ______________________ ______________________					

11. How likely or unlikely are you to apply to the UDAG program within the next 12 months?

(1) __ will definitely apply

(2) __ will probably apply

(3) __ Uncertain

(4) __ Probably will not apply

(5) __ Definitely will not apply

11A. Would you please explain your reason?

(1) yes

(2) no

(RECORD EXPLANATION)

12. I would like to know if you have any other observations or comments about the UDAG program.

(1) yes

(2) no

(RECORD OBSERVATION)

Well, that concludes my questions. Thank you very much for your time and assistance.

U.S. GENERAL ACCOUNTING OFFICE

Telephone Survey of

Unsuccessful UDAG Applicants

☐ Card Number

☐☐☐ Case Number

☐ Community Category

☐ Population Category

☐☐☐.☐☐ Impaction

☐☐ HUD Region

City ______________________

Municipal phone no. __________

1st Referral: ________________

Title: ____________________

Phone: ____________________

2nd Referral: ________________

Title: ____________________

Phone: ____________________

3rd Referral: ________________

Title: ____________________

Phone: ____________________

Telephone/
HUD Region ______________

Call back for information on questions:

____

GAO Caller ______________________

Interviewee ______________________

Hello, my name is   , and I'm with the U.S. General Accounting Office in Washington, D.C. We are an agency of Congress responsible for evaluating Federal programs.

We're currently evaluating a HUD program called the Urban Development Action Grant program--also known as the UDAG program. We're gathering information on why cities such as yours have not been successful in obtaining UDAG funds.

I would like to broadly discuss your community's economic development needs, as well as specifics regarding the UDAG program. Are you the right person in your city to talk about this? My questions should take about 15 minutes. Is this a convenient time?

Unsuccessful UDAG Applicants Questionnaire

1. I'd like to begin by asking you to what extent, if any, do you have economic development needs for commercial, industrial, and housing projects.

	Very Great	Great	Moderate	Some	Little or No
	1	2	3	4	5
(1) Commercial					
(2) Industrial					
(3) Housing					

2. I'm going to read you a list of government programs, and I would like you to tell me if your community has received funding from any of them during the last three years.

	Y	N	DK
	1	2	3
(1) Dept. of Commerce's Economic Development Administration programs			
(2) USDA's Farmer's Home Administration programs			
(3) HUD's Community Block Grant Entitlement Program			
(4) HUD's Community Block Grant Small Cities Program (which may be State administered)			
(5) Other Federal programs (please specify) ________ ________ ________			
(6) State programs (Please specify ________			

3. We understand that in past years your community has applied for funding under HUD's Urban Development Action Grant Program (UDAG). Is this correct?

Yes. 1
No (Switch to "Non-Applicant Questionnaire). . 2

4. Did your community receive UDAG funds?

Yes. . (Go to Q 5) 1
No . . (Go to Q 6) 2

5. Could you provide us with the project number, date, and amount of each UDAG award that you received?

Project No. ____________________

Date of Award ____________________

Amount of Award ____________________

(Thank respondent and end interview)

6. How did you become aware of the UDAG program?

	Y	N	DK
	1	2	3
(1) Newspaper/magazine articles			
(2) UDAG pamphlets and brochures			
(3) UDAG application forms/regulations			
(4) Discussions with HUD officials			
(5) Discussions with State officials			
(6) Discussions with local officials			
(7) Other (Please specify) ____________________			

____

____

____

7. Did you discuss your community's application(s) with officials of HUD's

	Y	N	Unsure
-headquarters?			
-regional office?			
-area office?			

(If "no", go to Q 9)

8. How adequate or inadequate was HUD's explanation of how the program works?

(1) __ Very adequate

(2) __ Adequate

(3) __ Not sure

(4) __ Inadequate

(5) __ Very inadequate

9. HUD records indicate that you applied for a UDAG _____ times.
(Enter HUD number.) ___
Is this correct? (Enter verified/corrected number) ___

We would now like to ask you some specific questions about (each of) your application(s).

APPLICATION # ______________________ ____________
(project name) (NPC date)

NOTE: RESPONSES TO THE FOLLOWING 5 QUESTIONS WERE OBTAINED FOR EACH APPLICATION FROM A CITY. SINCE A CITY MAY HAVE SUBMITTED UP TO 6 APPLICATIONS, QUESTIONS 10 THROUGH 14 WERE REPEATED IN QUESTIONS 15 THROUGH 39.

10. HUD records indicate that your _____ application was not funded for the following reason (read checked reason). Would you tell me whether you agree or disagree with HUD's reasoning.

* HUD reason

	Strongly Agree 1	Agree 2	Uncertain 3	Disagree 4	Strongly Disagree 5
___ (1) Insufficient financial commitment					
___ (2) "But for" test was not met					
___ (3) Adverse environmental impact					
___ (4) Incomplete application					
___ (5) Application withdrawn by the community					
___ (6) Other reason					

11. Would you explain in more detail why your application was not funded.

(1) yes

(0) no comments

(RECORD VERBATIM) ____

____

____

____

____

______________________ ______________________

12. Was this project ever resubmitted for UDAG funding at a later date?

(1)___yes

(2)___no (go to Q14)

(If "yes")

13. Did the scope of this project increase, decrease or remain unchanged when you resubmitted it?

(1) __ scope increased

(2) __ scope decreased

(3) __ scope unchanged

Get application number (e.g. second, third, etc.) from respondent and go to that part of the questionnaire.

(If "no")

14. Would you tell me if this project was dropped, is still being promoted or proceeded without UDAG funding?

(1) __ has been dropped by your community or private sector.

(2) __ is still promoted by your community or private sector.

(3) __ proceeded without UDAG funding. (Specify sources of funds and changes in the project's original scope or scale.)

____

____

____

____

(4) __ don't know.

40. In your opinion, what is needed to help your community in reapplying for UDAG funds:

	Very Great Need	Great Need	Moderate Need	Some Need	Little or No Need
	1	2	3	4	5
(1) Additional program information?					
(2) Technical assistance?					
(3) A streamlined application process?					
(4) Other - Please specify					

41. How likely or unlikely are you to apply to the UDAG program within the next 12 months?

(1) __ will definitely apply

(2) __ will probably apply

(3) __ Uncertain

(4) __ Probably will not apply

(5) __ Definitely will not apply

42. Would you please explain your reason?

(1) yes

(2) no

(RECORD VERBATIM) ________________

43. I would like to know if you have any other observations or comments about the UDAG program.

(1) yes

(2) no

(RECORD VERBATIM) ________________

Well, that concludes my questions. Thank you very much for your time and assistance.

SMALL CITIES' UDAG APPLICATION/FUNDING

STATISTICS BY STATE: ALL ELIGIBLES[a]

Table 1-1

State	Eligible cities	Applicant cities	Funded cities
Alabama	254	33	20
Alaska	78	0	0
Arizona	28	4	0
Arkansas	344	14	10
California	63	19	13
Colorado	130	11	5
Connecticut	10	2	1
Delaware	29	2	1
Florida	127	5	2
Georgia	387	31	15
Hawaii	0	0	0
Idaho	87	4	0
Illinois	537	33	19
Indiana	264	15	10
Iowa	550	25	24
Kansas	401	9	9

[a] Covers the period from initial UDAG applications and awards in 1978 until October 1982 and applies to small cities listed by HUD's Office of Management in September 1982 as meeting minimum standards for physical and economic distress. Small cities that meet these distress standards are considered to be potentially eligible for UDAG. These cities must also demonstrate results in achieving certain equal opportunity goals before submitting their first application.

State	Eligible cities	Applicant cities	Funded cities
Kentucky	225	12	11
Louisiana	218	17	9
Maine	17	7	6
Maryland	77	6	2
Massachusetts	12	10	8
Michigan	241	29	13
Minnesota	434	21	13
Mississippi	224	18	7
Missouri	639	30	16
Montana	77	3	0
Nebraska	357	4	1
Nevada	3	0	0
New Hampshire	1	1	0
New Jersey	52	17	8
New Mexico	55	4	3
New York	336	75	49
North Carolina	298	31	9
North Dakota	233	11	4
Ohio	434	26	15
Oklahoma	405	29	14
Oregon	74	5	0

State	Eligible cities	Applicant cities	Funded cities
Pennsylvania	574	54	28
Rhode Island	3	2	2
South Carolina	178	12	10
South Dakota	236	11	3
Tennessee	199	31	15
Texas	526	55	18
Utah	68	4	1
Vermont	37	4	2
Virginia	118	11	5
Washington	97	5	2
West Virginia	164	17	11
Wisconsin	243	15	8
Wyoming	17	0	0

SMALL CITIES' UDAG APPLICATION/FUNDING STATISTICS

BY STATE: ELIGIBLES WITH POPULATIONS UNDER 2,500[a]

Table 1-2

State	Eligible cities with pops. under 2,500	Applicant cities	Funded cities
Alabama	192	8	4
Alaska	78	0	0
Arizona	11	1	0
Arkansas	290	6	3
California	22	3	1
Colorado	106	1	1
Connecticut	2	0	0
Delaware	24	0	0
Florida	83	0	0
Georgia	295	5	1
Hawaii	0	0	0
Idaho	74	3	0
Illinois	445	6	3
Indiana	204	1	1
Iowa	505	5	4
Kansas	359	0	0

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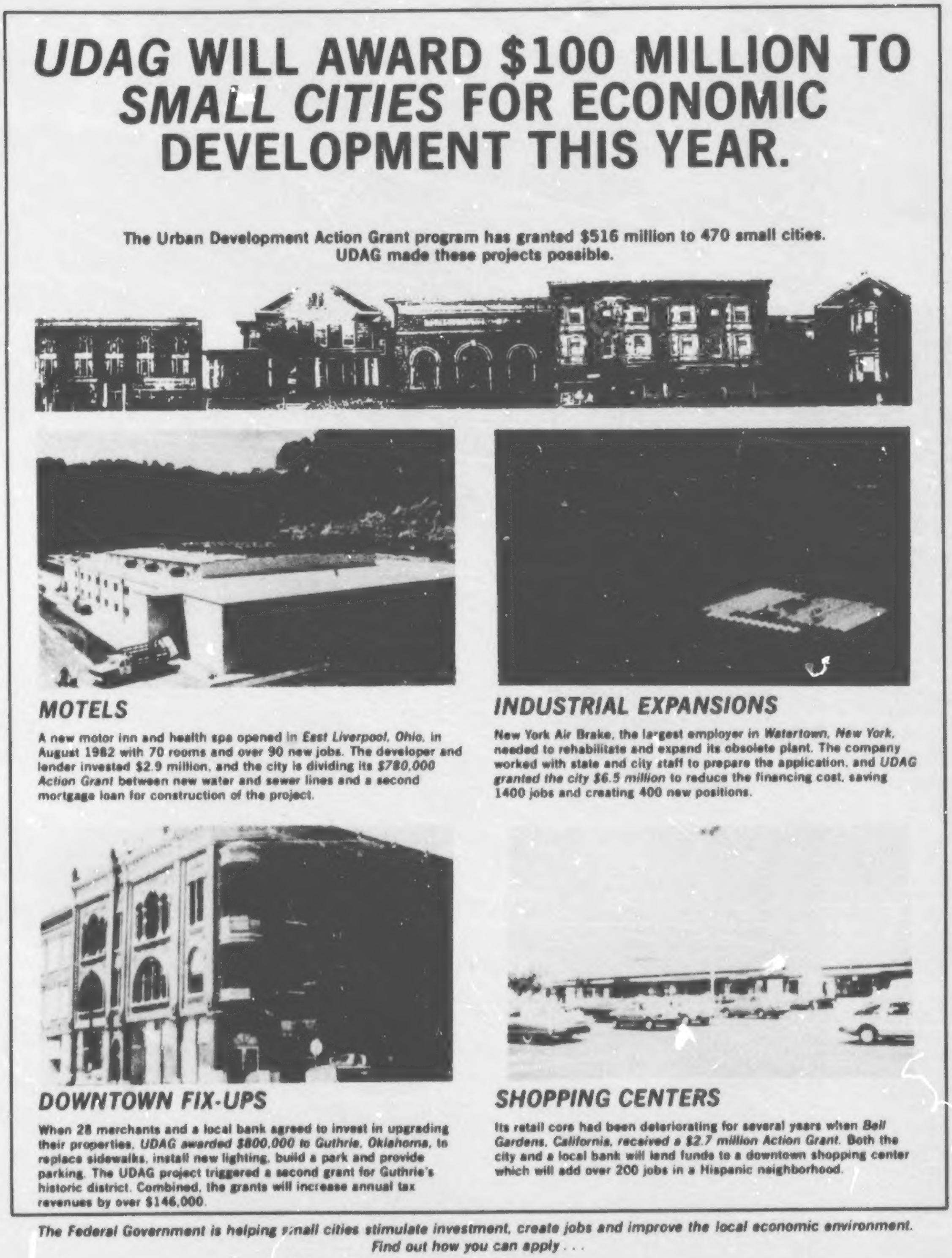
[a] Covers the period from initial UDAG applications and awards in 1978 until October 1982 and applies to small cities listed by HUD's Office of Management in September 1982 as meeting minimum standards for physical and economic distress. Small cities that meet these distress standards are considered to be potentially eligible for UDAG. These cities must also demonstrate results in achieving certain equal opportunity goals before submitting their first application.

State	Eligible cities with pops. under 2,500	Applicant cities	Funded cities
Kentucky	167	2	2
Louisiana	159	2	1
Maine	1	0	0
Maryland	62	2	1
Massachusetts	0	0	0
Michigan	171	9	4
Minnesota	398	12	8
Mississippi	169	5	1
Missouri	552	4	1
Montana	63	2	0
Nebraska	339	0	0
Nevada	3	0	0
New Hampshire	0	0	0
New Jersey	13	1	0
New Mexico	41	0	0
New York	211	12	6
North Carolina	218	11	3
North Dakota	227	10	3
Ohio	339	3	0
Oklahoma	339	5	2
Oregon	61	1	0
Pennsylvania	356	5	2
Rhode Island	0	0	0

State	Eligible cities with pops. under 2,500	Applicant cities	Funded cities
South Carolina	126	5	4
South Dakota	222	7	1
Tennessee	144	9	1
Texas	381	14	2
Utah	61	2	1
Vermont	29	0	0
Virginia	94	2	0
Washington	86	2	1
West Virginia	132	5	0
Wisconsin	206	8	5
Wyoming	17	0	0

UDAG INFORMATION FYLER TO SMALL CITIES



UDAG WILL AWARD $100 MILLION TO *SMALL CITIES* FOR ECONOMIC DEVELOPMENT THIS YEAR.

The Urban Development Action Grant program has granted $516 million to 470 small cities.
UDAG made these projects possible.

MOTELS

A new motor inn and health spa opened in *East Liverpool, Ohio*, in August 1982 with 70 rooms and over 90 new jobs. The developer and lender invested $2.9 million, and the city is dividing its *$780,000 Action Grant* between new water and sewer lines and a second mortgage loan for construction of the project.

INDUSTRIAL EXPANSIONS

New York Air Brake, the largest employer in *Watertown, New York*, needed to rehabilitate and expand its obsolete plant. The company worked with state and city staff to prepare the application, and *UDAG granted the city $6.5 million* to reduce the financing cost, saving 1400 jobs and creating 400 new positions.

DOWNTOWN FIX-UPS

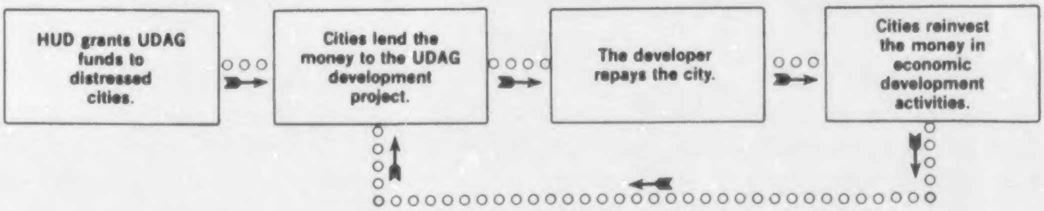
When 28 merchants and a local bank agreed to invest in upgrading their properties, *UDAG awarded $800,000 to Guthrie, Oklahoma*, to replace sidewalks, install new lighting, build a park and provide parking. The UDAG project triggered a second grant for Guthrie's historic district. Combined, the grants will increase annual tax revenues by over $146,000.

SHOPPING CENTERS

Its retail core had been deteriorating for several years when *Bell Gardens, California, received a $2.7 million Action Grant*. Both the city and a local bank will lend funds to a downtown shopping center which will add over 200 jobs in a Hispanic neighborhood.

The Federal Government is helping small cities stimulate investment, create jobs and improve the local economic environment.
Find out how you can apply . . .

How the funds flow:


HUD grants UDAG funds to distressed cities.
Cities lend the money to the UDAG development project.
The developer repays the city.
Cities reinvest the money in economic development activities.

Action Grant funds have a range of uses:

- Site Improvements
- New Construction
- Industrial & Commercial Rehabilitation
- Water Mains & Sewers
- Machinery & Fixed Equipment

UDAG can provide various kinds of financing:

- Loans
- Interest Subsidies
- Lease Financing
- Equity Investments

The Action Grant Program is flexible: it can be tailored to fit your needs:

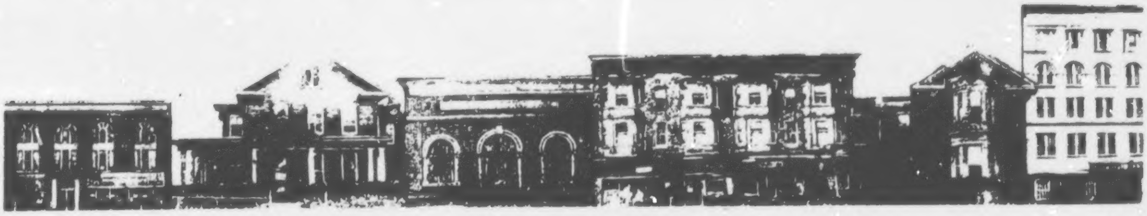
- UDAG finances large & small projects.
- Terms are negotiable.
- Response is quick.
- Technical assistance is available from HUD.

What do you need to get an Action Grant?

- A project which creates jobs.
- At least $2.50 of private funds for each $1.00 of UDAG.
- Evidence that the project needs the grant.
- Firm, private financing commitments.
- A project that increases tax revenues.
- A project ready to proceed.

For more information:

H.U.D. Office of Action Grants
451 7th Street, S.W.
Washington, D.C. 20410
(202) 755-5290



HUD'S TECHNICAL ASSISTANCE CONTRACTS

As noted in our report, officials from the Office of UDAG cited four major ongoing technical assistance contracts and one new contract aimed at increasing local economic development through the UDAG and other federal programs. Two of these contracts emphasize general economic development initiatives at the state government level, while the other three focus on assistance to particular cities and projects. Overall, two of these five contracts put explicit emphasis on increasing the participation of small cities in the UDAG program.

The first of the state-oriented contracts was awarded in July 1982 to the National Development Council for the HUD-sponsored Small Business Economic Revitalization Program. This program is designed to create new permanent private sector jobs and increase local private investment in existing industrial and commercial small businesses by helping the Governors' offices of 20 selected states establish their own self-sustaining economic development capacity.[1] One of the council's specific tasks is to train and assist state economic development professionals in how to use federal economic development programs, such as the UDAG program, to leverage private sector dollars or support the financing of a suitable commercial/industrial project.

The second technical assistance effort oriented to the state government level is HUD's contract with the National Association of State Development Agencies, awarded in September 1982. The 18-month contract aims to improve the ability of five selected state governments[2] to support local economic development, promote outreach to small cities, and coordinate available federal, state, local, and private resources. This effort emphasizes the use of UDAG and Community Development Block Grant funds in ways that maximize the complementary use of state and private sector resources. As part of its contract, the association is to establish an ongoing information exchange to provide all state development agency directors with regular information on the programs and approaches developed within the project.

HUD's contract with the Mexican-American Research Center, Inc., is aimed at providing UDAG technical assistance directly to city governments. This 18-month contract, awarded in September 1982, is designed to stimulate employment and economic development among the Mexican-American population in 12 metropolitan cities located in Arizona, California, New Mexico, and Texas. The research center and the participating cities have identified specific minority business ventures which will make use of the UDAG or Community Development Block Grant Program as partial funding sources. Since all of the selected cities are classified as "metropolitan," this effort will have no direct effect on small city UDAG participation.

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[1] The states selected were: Arizona, Arkansas, Florida, Illinois, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, Ohio, Oregon, Pennsylvania, South Dakota, Utah, Washington.

[2] The states selected were: Kentucky, Louisiana, Michigan, North Dakota, and Oklahoma.

HUD's fourth technical assistance effort deals, in part, specifically with small cities. The contract with Halcyon, Ltd., began in July 1980, has encompassed four principal tasks: (1) to revise the sections of the UDAG application dealing with projected jobs and tax benefits so that cities could provide more realistic, specific, and comparable information, (2) to develop and implement a strategy to increase small city participation in the UDAG program, (3) to provide assistance to selected eligible metropolitan and small cities that do not have the technical capacity to plan, package, and submit a competitive UDAG application, and (4) to assist selected projects that have received UDAG funding but have had implementation difficulties. With regard to small cities, Halcyon prepared a report to the UDAG office on the problem of small city participation, developed an information flyer for small cities (see app. V), and provided technical assistance to 47 small cities from April 1982 through July 1983. This assistance focused on resolving problems with projects that had already been submitted for consideration or had been funded.

In June 1983, HUD began a 12-month contract with McManis Associates designed to provide training and technical assistance to distressed communities which are eligible to participate in the UDAG program but have not done so. McManis Associates will conduct eleven 2-day workshops across the country. About 100 participants--primarily from small cities--will be invited to each session.[3] These regional workshops will provide participants with techniques for identifying potential development projects as well as information on UDAG policies and procedures. McManis Associates will also provide local followup workshops with about 70 of the cities that participated in the workshops and that have been identified as having potentially fundable projects. These workshops will be held in each of the selected cities and will include city officials, developers, and financiers. Further, followup assistance for specialized technical assistance will be provided on demand to about 20 to 25 of the cities selected for the local workshops.

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[3] The regional workshop locations have been announced as: Birmingham, Ala.; Sacramento, Calif.; Ann Arbor, Mich.; Kansas City, Mo.; St. Louis, Mo.; Cincinnati, Ohio; Johnstown, Penn.; Dallas-Ft. Worth, Tex.; San Antonio, Tex.; Newport News, Va.; and Madison, Wis.

UDAG APPLICATION EXCEPT ON TAX INFORMATION

b. Taxes - Using the following instructions work with your jurisdiction's Tax Assessment (or Finance and Revenue) Office to complete UDAG FORM 5. You will need to refer to the completed UDAG FORM 4 and information on tax abatement, tenancy, square footage by use and projected sales in the project.

UDAG FORM 5--Tax Revenues--seeks an estimate of the net increase in tax revenues that the applicant jurisdiction will realize from the proposed UDAG project. Applicants may elect to use alternate methods for estimating changes in real property tax revenues or other tax revenues, provided that the estimating method and calculations are shown and explained.

Section 1 of the form--Real Property Taxes--determines the taxes that will be paid on the project when it is completed. If the UDAG project only involves capital equipment acquisition, enter "N/A" in Items 1a, b, c, d, and f and "0" in item 1e. Otherwise, complete these items and enter "N/A" in Item 1g.

Item 1a is the market value of the project upon completion, estimated by a standard tax appraisal procedure. For multiphase projects, show the estimated value of the project upon completion of the final phase. State the estimate in current dollars. One reasonable estimate of market value is the sum of land value and estimated construction cost.

Item 1b is the fractional tax assessment rate. This rate can be obtained from the tax assessor's office.

Item 1c is the product of Items 1a and 1b.

Item 1d is the nominal tax rate for the UDAG project use. Include only that portion of the rate for taxes that will accrue to the local jurisdiction and its school board. Exclude that portion of the rate that will accrue to special districts or other levels of government. The tax assessor can supply information on nominal tax rates. In a multiple use project, some jurisdictions may have different tax rates or assessment rates for different uses. In these cases, the calculations in Items 1a through 1e should be run separately for each group of uses that is at a different rate.

Item 1e is the product of 1c x 1d.

Item 1f is the average tax abatement that will be received by the project over the next 20 years. If no tax abatement will be offered, enter "0". Otherwise sum the amount of tax reduction that the tax abatement schedule prescribes for each of the first 20 years after project commencement. Divide the sum by 20, and enter the resulting quotient. Include the tax abatement schedule in the application narrative.

Item 1g. Explain method of calculation and duration of payment for PILOT if less than 20 years.

Item 1h is the amount of project-related special assessment and special district tax revenue that is expected to be generated in the first full year after project completion. Count only revenue that the applicant jurisdiction will receive.

Item 1i is the amount of real property tax that the UDAG project parcels generate as presently developed. If the parcels currently generate no tax revenues, e.g. because they are held by a government or non-profit organization, enter (0). The amount of the current tax bill for each project parcel can be obtained from the tax assessor.

Item 1j is the total of Items 1e - 1f + 1g + 1h - 1i.

Section 2 of the form--Other Taxes--determines the likely changes in other tax revenues that will result from the UDAG project. Include only taxes levied by the applicant jurisdiction and taxes returned to the applicant jurisdication (e.g., by the state) by a legally mandated formula. If the state legislature decides annually on the amount of income or sales tax to return to the applicant jurisdiction, rather than using a legally fixed percentage, do not count these tax revenues. Exclude all Federal taxes.

Items 2a through 2c seek the sales tax impacts of the project. Include "by the drink" taxes in sales tax. If no sales tax is levied by or returned by formula to the applicant jurisdiction, enter "N/A" in Item 2c. If an alternate calculation method is used, do not include sales tax changes to new/increased expenditures by employees and businesses or from sources other than businesses moving to or from or retained on the UDAG project site.

Item 2a is the sales tax generated by new businesses located in the UDAG project. Exclude businesses moving to the site from another site within the applicant jurisdiction.

Item 2b is the change in sales tax generated by businesses moving to or from the project site. Be sure to precede the entry with a "+" sign if sales tax will increase or a "-" sign if it will decrease. If any business will relocate within the applicant jurisdiction but off the project site and will not suffer a loss in sales due to its move, do not consider this business when computing sales tax changes. Similarly, do not consider any business moving to the project site from elsewhere in the applicant jurisdiction and not experiencing an increase in sales tax revenues.

Item 2c is the sum of Items 2a + 2b .

Item 2d is the business income tax impact of the UDAG project. If no business income tax is levied by or returned by formula to the applicant jurisdiction, enter "N/A" in Item 2d. Be sure to show the method and calculations used to estimate income taxes. Include income taxes of new businesses, plus the increase in income taxes of business moving to or expanding at the site, less the loss in income taxes for businesses currently on the site that will discontinue or relocate outside the applicant jurisdiction.

Item 2e is the average net change in personal property taxes that the applicant jurisdiction will realize in the first 20 years of the project's life. Include personal property taxes on new businesses at the site, and on businesses locating at the site from outside the applicant jurisdiction, and the increase in taxes for businesses expanding currently on the site. Personal property tax is reduced each year as the property is depreciated. The tax on a given type of property has a life cycle that starts with purchase and continues beyond the end of the depreciation period to obsolescence and replacement. Ideally, one should compute the average annual personal property tax across the property's life cycle for each type of property, then sum across the different types. This method is burdensome, therefore many local revenue departments and tax assessment offices use rules of thumb to estimate likely personal property tax receipts from a project. Please show and explain your estimating methods and computations. State estimates in current dollars, ignoring inflation effects.

Item 2f is the net change in hotel inventory, business franchise and mercantile taxes that the applicant jurisdiction will realize once the UDAG project is built. Use current tax rates in making this estimate. Include taxes on newly created businesses and businesses moving into the applicant jurisdiction, plus increase in taxes due to business expansion, less taxes lost due to the discontinuance or departure from the jurisdiction of businesses currently located on the UDAG project site.

Item 2g is the place to show any other type of tax revenues that the UDAG project will generate for the applicant jurisdiction. Show the nature and amount of each tax. Exclude fees for service such as license or permit fees that cover the costs of inspection.

Item 2h is the sum of Items 2c, 2d, 2e, 2f, 2g.

Section 3 is the total of Items 1j and 2h.

UDAG FORM 5 Tax Revenues

Instructions: This form obtains the net increase in tax revenues that the applicant jurisdiction expects to receive due to the proposed UDAG project. It counts only taxes levied by or returned by a set formula to the applicant. In this form, complete all items that are applicable to the proposed project. On a separate page, include a narrative description of the basic assumptions and techniques used in calculating these figures. If an item is not applicable to the proposed project insert "N/A". Refer to the preceding Instruction Sheets if further guidance is needed.

Section 1 Real Property Taxes

	Amount*
a. Estimated tax appraisal of project's market value upon completion	$________________
b. Fractional tax assessment rate	________________%
c. Assessed value of project upon completion (a x b)	$________________
d. Nominal tax rate of the local jurisdiction and its school board for the UDAG project use, excluding portion of tax rate allocated to special districts or jurisdictions other than applicant	____________/$1000 of assessed value
e. Estimated real property tax revenues to be paid to applicant before any tax abatement (c x d)	$________________
f. If tax abatements are applied, estimate the average annual amount abated over 20 years according to abatement schedule (count for years with no abatement)	$________________
g. Payment in lieu of taxes [pilot] (average annual amount over 20 year time period)	$________________

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*Base information on fiscal improvement on an estimate of circumstances in the first year after completion of the last phase of the UDAG project.

	Amount
h. Expected revenues from special assessments and special tax districts that will result from this project	$______________
i. Tax bill in current year for project parcel(s) as presently developed	$______________
j. TOTAL: Change in property tax revenues paid to local government (e - f + g + h - i)	$______________

Section 2 Other Taxes: Changes in other tax revenues levied by or returned by formula to applicant jurisdiction as a result of this UDAG project. Exclude all Federal taxes

a. Sales tax generated by new businesses and levied by or returned by formula to applicant jurisdiction	$______________
b. Change in sales tax generated by businesses moving to or from UDAG project site or expanding at the site; indicate "+" or "-"	$______________
c. Net changes in sales tax levied by or returned by formula to applicant jurisdiction (a+b)	$______________
d. Net change due to UDAG project in business income taxes levied by or returned by formula to applicant jurisdiction	$______________
e. Average net change in personal property taxes (over a 20 year period) levied by or returned by formula to applicant jurisdiction	$______________
f. Net change in hotel inventory, business franchise and mercantile taxes levied by or returned by formula to applicant jurisdiction	$______________

g. Change in other taxes, excluding fees for service (e.g. permit fees) $____________

Nature of Tax	
________________________	$____________
________________________	____________
________________________	____________
________________________	____________

h. Total other taxes (2c + 2d + 2e + 2f + 2g) $____________

Section 3 TOTAL: Net change in tax revenues of applicant jurisdiction due to UDAG Project (1j + 2h)

TOTAL: $____________

Certification

I hereby certify that this form accurately reflects the likely fiscal impact of the proposed project.

____

Chief Tax Assessor or Chief Fiscal Officer

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

OCT 25 1983

Mr. J. Dexter Peach
Director, Resources, Community
and Economic Development Division
General Accounting Office
441 G St. N.W. Room 4915
Washington, D. C. 20548

Dear Mr. Peach:

We have reviewed the draft report prepared by your Office entitled "First Completed UDAG Projects Meet Most Expectations, But Recordkeeping and Small Cities' Participation Are Problems" and transmitted to Secretary Pierce on September 8, 1983. Our comments and suggestions regarding that report are included in the attached materials.

If you have any questions or need any additional information, please contact me.

Sincerely,

Stephen J. Bollinger
Assistant Secretary

Enclosure

INTRODUCTION

Our response to the GAO report entitled "First Completed UDAG Projects Meet Most Expectations, But Recordkeeping and Small Cities' Participation Are Problems." includes two sections. In the first section we have responded to each of GAO's recommendations on three program issues: the need for more accurate information on the outcome of completed UDAG projects; the need for assistance to small cities; and the need for a clear policy to determine the status of UDAG repayments. Our purpose in this section is to indicate actions to be taken to respond to the concerns raised by GAO.

In the second section, we have commented on certain portions of the text of the report to provide additional information which will enhance understanding of the program by clarifying certain points. [See GAO note below.]

HUD RESPONSE TO GAO RECOMMENDATIONS

Information System

GAO Recommendation

In Chapter 2 (entitled "More Accurate Information Needed On The Outcome of Completed UDAG Projects"), GAO recommends changes to UDAG's information system. Specifically, the report states:

> We recommend that the Secretary require HUD's UDAG information system to (1) record each UDAG project's expected goals according to the grant agreement or its amendments and (2) use additional, available information provided by grantees on goals realized up to the time HUD considers a project complete.

HUD Response

The collection and reporting of accurate information on the goals and performance of funded UDAG projects has been a concern of HUD's since the inception of the program. We are constantly refining and modifying our information systems to assure that our project data is complete and timely.

We have, in fact, already taken several steps to implement the first part of GAO's recommendation. Within the last two years we began placing certain basic information on a project's expected goals on the cover sheet of Grant Agreements and amendments.

[GAO note: The second section of HUD's comments were of a minor technical or editorial nature. Consequently, they were not reproduced in this report, but the comments were recognized where appropriate.]

These figures are entered into the computer and can be retrieved to use in comparing a project's final performance against its stated goals. Consideration was given to going back into the data base for projects funded prior to the implementation of this new procedure and extracting the relevant data on expected goals for those projects as well. This was determined not to be cost effective especially in light of the proposed severe cuts in UDAG's ADP budgets for fiscal years 1984 and 1985.

We are also using this data as a management tool. In the summer of 1982 we made changes to the Quarterly Monitoring Report (QMR), document which provides an analysis to HUD staff in Central and field offices of the data provided by grantees on their Quarterly Progress Reports (QPR). The QMR now includes each project's goals and current status per the QPR vis-a-vis those goals. This enhances our monitoring capabilities by providing managers with a tool to quickly assess the progress of each project and to take appropriate actions where projects are not progressing as they should.

In April 1983 we implemented a number of changes in the application review process. One outcome of those changes is that we can now obtain more accurate and timely projections on projects during and immediately after the selection round.

In the second part of its recommendation on information systems, GAO urges that HUD "use additional available information provided by grantees on goals realized up to the time HUD considers a project complete."

We are now in the process of expanding the automated information system to support the program's closeout and completion activities. This new system will re-inforce and integrate the existing tools to collect final project data such as the final QPR.

Small Cities

In Chapter 3 (entitled "Many Small Cities May Need Help to Secure A UDAG Award"), GAO makes four recommendations intended to improve the rate of participation of small cities in the UDAG program. The recommendations and HUD's responses follow.

GAO Recommendation #1

> Establish a central outreach plan that outlines small city participation goals and objectives, and establishes criteria for selecting small cities for technical assistance.

HUD Response

HUD is taking a number of steps to further its outreach and technical assistance efforts for small cities, and we believe that they have already begun to produce results. Since GAO collected and analyzed the data for this report, HUD has:

- sent flyers specifically targeted to small cities to all such cities now eligible for the program;
- implemented a new application form;
- continued with several existing technical assistance contracts and signed additional ones;
- established a regional coordinator in the field structure with responsibilities for outreach and technical assistance; and
- completed additional training for field staff.

While the text of the GAO report makes mention of these things it does not analyze the impact of HUD's action on the issues which concern the GAO. We believe that the impact has been significant as illustrated by the recent changes in the funding situation regarding small cities. We therefore do not believe that a plan, per se, is called for at this time.

HUD announced the April small cities funding round containing 76 projects with $58.5 million of Action Grant funds. In July, HUD announced 84 projects totalling $57.5 million. The July round included the largest number of projects ever announced for small cities and one of the highest dollar awards of any small city funding round. For the first time in the history of the program we have announced funding of more than the 25% mandated set-aside for small cities in the first three funding rounds of this fiscal year. During FY 1983, a total of 241 projects with $170.3 million was announced.

Headquarters will also retain the following national contracts:

(1) National Development Council (NDC) administers for the Department the Small Business Economic Revitalization (SBR) program. A significant element of this program is the training of local economic development professionals in 20 states to enable the local officials to identify and package UDAG projects; especially small city projects. Over the next two years, the number of States participating will double.

(2) Halcyon is the UDAG master contractor. The objective of the contract is to use the expertise of a multi-disciplined team to assist distressed cities plan and package fundable UDAG projects, and to work with cities which have trouble implementing a project after they receive preliminary approval of a grant. Since many more small cities have a difficult time in all phases of the UDAG program than large cities, a large percentage of Halcyon's time is spent on assisting these small cities.

(3) National Association of State Development Agencies (NASDA) The purpose of this contract is to assist five states to improve their ability to help local governments use CDBG and UDAG funds for economic development, in ways that compliment the use of other state resources and maximize the leverage of private dollars in a project.

(4) McManus Associates was hired by the Department specifically to familiarize small cities with the UDAG program. They will hold eleven 2 day conferences across the country. On the first day, the regional training workshops will address techniques for identifying, promoting and packaging viable commercial, industrial, and residential development projects (including market assessment, locational evaluation, financing concerns, participant identification) and the UDAG role in converting marginal projects into viable undertakings (UDAG participation requirements and their rationale). The second day will be devoted to individual consultations with representatives from communities which have potential projects under consideration. Attendance will be limited to one or two persons from each of about sixty to seventy communities. State community development officials and HUD Area Office economic development specialists will be invited to attend. In some cases county and/or regional planning agency officials who support small communities in their areas may be appropriate attendees. Follow up on site assistance can be given on request by small cities.

These national contracts give HUD the flexibility to assist small cities on an as needed basis.

GAO Recommendation #2

> Establish a list of the most economically distressed small cities that have never applied for a UDAG or have applied without success in order to identify them for possible information and, if appropriate, technical assistance.

HUD Response

This is not a proper role for HUD. The UDAG program is by law a national competition. We cannot favor one city over another. It is a local decision whether to apply for UDAG assistance. It is the obligation of this Office to promote the program and provide program information. As the data indicates, the largest number of small cities is under 2,500 in population, including many severely distressed cities. It is likely that development opportunities may not be available in these cities. We cannot and should not try to create development opportunities where they do not exist. We only have a limited staff and limited technical resources available to assist cities with all phases of the UDAG process. We have made the decision to concentrate our scant resources on viable UDAG deals. As noted in the description of the NDC contract we have also emphasized the State's role in assisting small cities. Beyond the assistance HUD can provide, every small city can use up to 3% of its grant toward hiring experts to help them plan and package UDAG deals.

GAO Recommendation #3

> Develop a comprehensive set of UDAG information outreach materials to help promote the program among small cities and the private sector.

HUD Response

There are already a number of informational materials that promote the program to the private sector. We agree with GAO that additional materials are needed for small cities and we are taking several steps to meet that need. We are in the final stages of publishing a handbook for small cities. It will provide the cities with information in non-technical language and has two major objectives: (1) to acquaint small cities with the development process and (2) to tell them what the UDAG program is and how to apply for a grant. We are also in the initial stages of developing comprehensive case studies. These case studies will help cities of every size better understand the UDAG program.

GAO Recommendation #4

> Develop and test a streamlined application form for use by small cities.

HUD Response

UDAG has implemented legislative and administrative procedures to streamline the entire UDAG application/award process. These actions have met with widespread local approval. These simplifications included eliminating A-95 State and areawide reviews, modifying citizen participation requirements, removing requirements for submitting a separate community development plan and substituting certifications for full documentation of compliance with historic preservation requirements. Additionally, a new shorter application form is being used which contains examples, definitions and clearer instructions, while requesting that the application be a joint product of the private sector as well as the city.

Local economic development officials have welcomed these changes, seeing them as accelerating their development efforts, and citing savings in time and paperwork. Development officials estimate that the changes may save a month's time in getting an application to HUD. Local officials point out that the careful negotiations with private developers and the close involvement of HUD program staff in reviewing deals improves the quality of the application. We do not believe that further streamlining of the process is needed or addresses the problem that faces small cities in the UDAG program. What is called for in the new application form is the minimum amount of information needed by HUD to make informed funding decisions.

UDAG Repayments

Chapter 4(entitled "Clear Policy Needed to Determine When UDAG Repayments Belong to Cities") includes recommendations aimed at clarifying HUD's policies regarding UDAG repayments.

GAO Recommendations

"We recommend that the Secretary of Housing and Urban Development:

- develop and issue policy guidance, as expeditiously as possible, on when UDAG repayments should be considered city money, and

- establish consistent UDAG repayment requirements.

HUD Response

As projects are now reaching the closeout stage, requirements for the treatment of UDAG loan repayments as program income, and the use to which the repayments are to be put, vary depending on the terms of the grant agreement involved. Those variations are in part due to the flexibility of the UDAG program in negotiating agreements on a case-by-case basis, depending on the nature and financing arrangements of the particular project, and to an amendment to the regulations adding the present program income provision in light of legislative amendments to the program in 1981. Complete consistency for all UDAG projects in regard to the use of repayments is not therefore to be expected nor necessarily desirable. To the extent apparent inequities are presented, HUD has in fact amended some outstanding agreements retroactively on the advice of OGC that this is permissible within certain limitations. Prospectively, grant agreements have had standard provisions added for the past year to promote further uniformity. In addition, anticipated amendments to the program regulations will further clarify the requirements. Pending their issuance, policy guidance on closeout problems of existing cases in this regard will be transmitted to UDAG recipients through HUD field offices.

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